



Firm Disclosure & Privacy Policy

January 2016

This brochure provides the qualifications and business practices of CAPSTONE Investment Group, LLC (CAPSTONE). Also included with this brochure is the CAPSTONE Privacy Policy. If you have any questions about this brochure, please contact Patrick McClelland at ps@capstoneig.net or call 360-570-9888.

This information has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any State securities agency. Additional information about CAPSTONE is available on CAPSTONE's website at www.wisdomanddiscipline.com.

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CRD #159918

Material Changes

The SEC adopted "Amendments to the Form ADV" in July, 2010. This Firm Brochure, dated December 9, 2015 is our disclosure document prepared according to the SEC's new requirements and rules. Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Also, we will provide you with other interim disclosures about material changes as necessary.

"Being a Registered Investment Advisor does not imply a certain level of skill or training"

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Advisory Business

CAPSTONE Investment Group, LLC (“CAPSTONE”), was previously affiliated with Pacific West Financial Consultants, Inc., a Registered Investment Advisor, and has helped clients invest since 2004. Our company name history includes McClelland Asset Management, LLC and McClelland Drennon Asset Management, LLC with our name finally changed to CAPSTONE Investment Group, LLC January 2011. Being a Registered Investment Advisor does not imply a certain level of skill or training, although Representatives who give investment advice on behalf of CAPSTONE have, at minimum, demonstrated industry experience or its equivalent experience in business and/or have passed the FINRA (Formerly NASD) exam for Investment Advisor (Series 65 or 66) and/or hold a professional designation, such as the Certified Financial Planner designation (CFP), or Chartered Financial Analyst (CFA).

Representatives provide unbiased investment management services, portfolio management and/or furnish investment advice. These services involve discretionary, daily oversight and selection of investment securities through fundamental and technical research, analyzing investment holdings to assist in managing client risk exposure while focusing on investor objectives. Portfolio Managers make daily decisions in a discretionary manner on behalf of clients to maintain a fiduciary standard whereby our clients’ needs are maintained ahead of the firms’. Additionally, Representatives may provide financial planning services, pension consulting or offer selection of other financial advisers. Representatives can tailor advisory services through a formal interview, risk tolerance questionnaire, or through other means such as a financial plan. Specific restrictions can be made for investing in certain types of securities by noting the same on the CAPSTONE Advisory Agreement or by notifying your Representative. Non-discretionary services are also available where necessary.

As of December 31, 2016, CAPSTONE Investment Group, LLC provided no services to non-CAPSTONE Investment Group, LLC direct clients.

CAPSTONE Representatives may make referrals to other investment management firms and such assets would not be included in the below noted totals.

CAPSTONE may provide ERISA fiduciary and non-fiduciary services to retirement plans and their participants when the client executes a Retirement Plan Advisory Agreement. In rendering fiduciary services, CAPSTONE is a “fiduciary” under the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Investment Advisers Act of 1940. The following is a summary of the Services provided and more specific terms and conditions are contained in the Retirement Plan Advisory Agreement. The client selects the specific Services to be performed.

- ERISA Non-Discretionary Fiduciary Services available include Investment Selection and Monitoring Services, Model Portfolios and Participant Advice. In providing ERISA Non-Discretionary Fiduciary Services, CAPSTONE shall act as an ERISA Fiduciary. The recipient of such advice retains the sole discretion as to whether to implement the advice and to initiate action to implement the advice.
- ERISA Discretionary Fiduciary Services available include Investment Selection and Monitoring Services, Model Portfolios and Qualified Default Investment Alternative. In providing ERISA Discretionary Fiduciary Services, CAPSTONE shall act as an ERISA Fiduciary and as an ERISA Section 3(38) Investment Manager. CAPSTONE shall retain final decision making authority with regard to all ERISA Discretionary Fiduciary Services. The client retains the fiduciary responsibility to prudently select and monitor CAPSTONE in this regard.
- Non- ERISA Fiduciary Services include Participant Education and Enrollment. In providing Non- ERISA Fiduciary Services, CAPSTONE is not rendering Investment Advice and is not acting as an ERISA Fiduciary.

Fees and Compensation

CAPSTONE receives fees for the investment management services which are noted within your Advisory Agreement. As of January 1, 2016 CAPSTONE Investment Group, LLC provided investment management services with \$54,400,000 of assets under management.

When a Representative refers a client to an outside manager, CAPSTONE will receive a solicitation fee from the third-party that is paid out of the advisory fee charged to the client per the contract the client entered with that manager. CAPSTONE does not participate in Wrap Fee programs. Fees charged may include consultation, financial planning, strategy monitoring, reviews, and asset management, among other things. Fees and/or other terms of client agreement may not be amended or negotiated without prior written notice and signed consent by all parties. In most cases, fee calculations are based upon the asset values provided by the custodian, and in most cases, fees are electronically debited per previously authorized agreement by client. However, it is possible to be invoiced for investment management services. Settlement or trade date accounting can be used to determine the account value for calculating advisory fees, which could lead to differences between the value used in the fee calculation and the value shown on the custodian statement.

The following outlines our basic fee schedules, though initial consultation and/or financial planning fees may be absorbed by the Asset Management Fee table as agreed to by client and CAPSTONE as noted below.

Planning Fees

Due at the time of service, plan only fees are charged and pre-approved by Client up to the following amounts:

Initial consultation: \$195/hour
Financial planning: \$195/hour*
Monitoring and review: \$195/hour

*Based upon our estimate of the total time required and the complexity of the client situation, the fee for planning services could vary. An engagement agreement would be signed by both client and CAPSTONE as to exact costs, with modifications to such plan likewise pre-approved by both parties. Our planning engagement exists to help you discover and define what you want out of life, how your present and projected future financial circumstances effect those objectives, family needs and general lifestyle dynamics. Recognizing each client has unique and special considerations our services can be either limited or very broad. Areas that can be covered include, but are not limited to, the following:

- Identification of goals and objectives
- Estimate of assets, liabilities and net worth
- Investment portfolio analysis
- Financial independence/retirement income needs
- Income tax situation review
- Disability/capital needs analysis
- Education funding needs
- Estimate of estate value and settlement costs
- Estate planning including meeting with client attorney(s) and tax advisor(s)
- Advanced planning techniques and strategies to help clients maximize their financial, social and personal wealth

We do not collect fees of \$500 or more per client, but may collect fees under \$500 per client, six months or more in advance as agreed to by CAPSTONE and client. Half the agreed upon fee is due in advance with the balance due at completion and signatory by client. Unused fees will be returned to client.

Annual Asset Management Fees (Tier Based Schedule)

\$	0 - 250,000	= 1.85%
	\$250,001 – 500,000	= 1.65%
	\$500,001 – 750,000	= 1.50%
	\$750,001 – 1,000,000	= 1.35%
	\$1,000,001 – 2,000,000	= 1.15%
	\$2,000,001+	= .75%

Billing is done monthly in arrears. In cases when the advisory agreement does not span the full billing period, asset management fees are prorated for the days the account has been open. You can terminate the management agreement at any time with written notice to: CAPSTONE Investment Group, 2401 Bristol Ct SW #D-101, Olympia, WA 98502, attention Chief Compliance Officer. A client can terminate new agreements within 5 business days without penalty. CAPSTONE does not charge separate termination fees, though the custodian may.

In addition to the advisory fees charged by CAPSTONE, costs incurred may include clearing firm transaction charges, commission on brokerage products, custodial fees or other charges. For information on brokerage expenses, please review the Brokerage Practices section of this brochure. If you have investments in mutual funds or other investment companies' funds that are used in calculating your advisory fees, those assets will be subject to additional advisory and other fees and expenses, as set forth in the prospectuses of those funds, paid by the funds but ultimately borne by the investor. CAPSTONE encourages you to compare the monthly asset management fee (invoice) charged against your account(s) to the fee posted on your account statement. Lower fees for comparable services may be available from other sources.

CAPSTONE offers referrals, investment advice, and management services. CAPSTONE Representatives are also Registered Representatives with Private Client Services ("PCS"), a FINRA/SIPC member broker/dealer and SEC Registered Investment Advisor. The Representative may recommend to clients or take an order from a client to sell or purchase securities or insurance products, which may produce additional compensation (commissions) for the Representative. This can create a conflict of interest in that there may be a financial incentive to recommend one product over another based on the amount of commissions paid. The investments, accounts and services offered by the broker/dealer are separate and distinctly different from the investment advisory services offered by CAPSTONE, even though the values of these investments may be shown on your advisory custodian statement. It is the independent business plan of some Representatives that some advisory clients will be solicited to use the services of the affiliated entities.

There is no obligation for you to use any of the affiliated business services or products, and you may use the professional service providers of your choice. It is possible for the Representative to sell a client a security or insurance product (and receive a commission), and later move the investment to a managed account as an investment advisor and charge a fee to manage the investment. For example, a client may have purchased a mutual fund and paid a sales charge (commission) to buy that fund. Should at a later time the client's needs, risk tolerance or investment objectives change this might influence a Representative recommendation to actively manage these funds within CAPSTONE. Though not a matter of practice, such a scenario could occur while leaving any decision to do so to the client.

For ERISA accounts, fees are noted in the Advisory Agreement provided by CAPSTONE and the Representative. Unless otherwise noted in the Advisory Agreement, any 12(b)-1 fees, sub-transfer agency fees and/or other similar fees that CAPSTONE or its affiliates may, from time to time, receive shall be used to reduce CAPSTONE's advisory fees or be remitted to the plan directly.

Performance Based Fees

CAPSTONE does not manage advisory services in a performance-based fee structure. Fees are calculated either by asset level or a specific fee for services rendered. However, Representatives may refer you to another investment manager who offers a performance-based fee structure. This may create a conflict of interest in that performance based fees may generate more revenue for the Representative and CAPSTONE in positive markets. Performance based investment accounts are held and reported on separately from such providers.

Types of Clients

Most CAPSTONE clients are individuals, married couples, families with trust accounts, retirement and non-retirement assets. Clients also consist of ERISA pension and profit sharing plans, corporations, estates and charitable organizations. While there is a target minimum \$200,000 household asset size set by CAPSTONE, CAPSTONE may adjust the minimum account at its own discretion.

Methods of Analysis, Investment Strategies, and Risk of Loss

Representatives utilize various investment disciplines to manage accounts including, but not limited to, charting, fundamental, technical, and cyclical analysis. All forms of investing have the risk of losing money. Representatives will assist you in assessing and stating your financial objectives and your risk tolerance through financial interviews, Investment Policy Statements, and/or other assessments. You are responsible for providing the Representatives and CAPSTONE any updates or changes to your financial objectives, risk tolerance, or current financial situation. The active allocation of client portfolios could be directed by the Representatives by using dynamic or tactical allocation procedures. Some instances might necessitate a buy and hold strategy for you by the Representative's recommendation.

Representatives may use Portfolio Theory for the ongoing diversification and allocation process, while other situations will require taking a more static allocation approach to match your investment goals. Representatives have the opportunity to utilize various third-party vendors for investment research and recommendations. This research could include custodians, clearing firms, investment research firms, research publications and/or periodicals and other investment media facets. Investment strategies used to implement any investment advice include short and long-term purchases, trading, and short sales. Some transactions might be on margin.

Strategies might also include option strategies. Investments that might be used by the Representatives include, but are not limited to, over-the-counter and exchange-listed equity securities, real estate investment trusts, corporate debt securities, certificates of deposit, municipal securities, variable life insurance, variable annuities, mutual fund shares, United States government securities, cash or cash equivalents, options, master limited partnerships, unit investment trusts, exchange traded funds, or other securities. All of the investments used by CAPSTONE Representatives have the risk of losing value. Representatives may recommend or utilize cash balances in your portfolio. Use of a cash position may be in an effort to achieve a specific allocation or to protect you against losses. Unless noted specifically in your Advisory Agreement, cash balances are charged an advisory fee. It is not the intention of CAPSTONE to leave monies in cash for extended periods of time, but rather to allocate there accordingly to mitigate risk or have a place for sell order proceeds to reside until such time as these funds are redeployed.

In addition to the types of investments and strategies noted above, CAPSTONE may invest in partnerships or limited liability companies that invest in equipment leasing and managed futures funds, which invest in futures and forward contracts of tangible and intangible commodities. Other investments could involve real estate and oil & gas partnerships, or direct participation programs. These investments bear significant risk as disclosed in the prospectus or private placement memorandum. It is important to recognize that investments noted in this section are highly illiquid, and the amounts shown on the statements might not accurately reflect the current liquidation value. With these investments, any stated value on the custodian statement should not be used for determining the present value of the asset.

Disciplinary Information

As a Registered Investment Advisor, CAPSTONE Investment Group, LLC is required to disclose material facts regarding legal or disciplinary events that would be material to an evaluation of CAPSTONE or the integrity of CAPSTONE's management. To date there have been no formal industry actions against CAPSTONE. Should such an event occur, CAPSTONE management will update our firm brochure and other sources as required by such

regulatory authority. No Advisor or employee of CAPSTONE has any legal or disciplinary actions previously or pending against them. Neither CAPSTONE nor any employee has a bankruptcy filing in their history.

Other Financial Industry Activities and Affiliations

As mentioned above, CAPSTONE has a closely affiliated relationship with Private Client Services, a FINRA member broker/dealer and SEC Registered Investment Advisor. Some Representatives refer clients to third-party investment advisor money managers. Money managers charge different fees based on their own fee schedule and compensation to CAPSTONE varies, so there is a potential conflict to refer you to managers that pay a higher fee.

Representatives interested in various third-party investment advisors may be eligible for invitation to annual marketing, due diligence, or compliance conferences. The purpose of these events is to develop and improve the Representative's practice and industry knowledge by providing education, marketing, and compliance information. The retail value of these events can exceed several thousand dollars and are paid by the third-party investment advisors Representatives use to refer client assets. Additionally, managers and vendors provide some Representatives with marketing assistance in the form of sales and seminar support and client prospecting data.

Additionally, CAPSTONE Representatives are typically licensed as life insurance agents. Where there is occasion for use of life insurance as an income replacement for beneficiaries or as an estate planning tool, Representatives receive a commission for selling such products, which may be a conflict for you. Also, fixed or fixed indexed annuities may be used as living benefit investment alternatives and CAPSTONE Representatives may receive a commission, which may likewise be a conflict for you. CAPSTONE insurance licensed representatives/agents typically spend less than 2% of their time on such activities.

CAPSTONE may offer outside money management services to clients. It is not CAPSTONE policy to offer such third party management services without that manager having first filed and/or been approved to do business in the State client resides.

Certain CAPSTONE employees participate in unrelated outside business activities such as managing personal investment real estate, charitable organization involvement or other such activities, but typically do not spend more than 2% of their time on such items.

Capstone Investment Group, LLC principals also own a majority interest in Capstone Trust, an independent Washington State trust company. Capstone Trust handles Trust administration for individual estates, provides Trustee services and can settle estates. Steven Elliott serves as President of Capstone Trust, Sandra Drennon as Treasurer and Patrick McClelland as Secretary. Steven Elliott's time is shared equally between Capstone Investment Group, LLC and Capstone Trust, while Drennon and McClelland spend limited time on Capstone Trust.

Code of Ethics, Participation or Interest in Client Transactions, Personal Securities Accounts

CAPSTONE has a developed Code of Ethics to which each Representative must receive and pledge to adhere to. In general, the Code of Ethics requires that Representatives have a duty of confidentiality, honesty, independent thinking, declaring all personal stock holdings, and placing your interest first. To obtain a copy of the CAPSTONE Code of Ethics call 360-570-9888.

If you open an account with Private Client Services, an affiliated company, any trades may generate commissions and revenue for Private Client Services and the Representative as a Registered Representative of Private Client Services. It is the policy of Private Client Services to permit the firm, its employees, and Representatives to buy, sell, and hold the same securities that the Representative also recommends to clients. It is acknowledged and understood that Private Client Services performs investment services for various clients with varying investment goals and risk profiles. As such, the investment advice may differ between clients. CAPSTONE will have no

obligation to recommend for purchase or sale a security which CAPSTONE, its principals, affiliates, employees, or Representatives may purchase, sell, or hold.

When a decision is made to trade a security from all applicable accounts, priority is typically given to the client's orders, although there are no internal trading rules that state the client orders must be before or after trades of a Representative. This may result in different execution prices for the client that may be higher or lower than the price received or paid by the Representative, though where possible trading preference and order of priority will first be given to the client.

Brokerage Practices

Clients of CAPSTONE will generally be assigned to a single broker/dealer or clearing firm by CAPSTONE, such as our affiliation with Private Client Services. As such, traditional brokerage account securities transactions are cleared through Pershing, LLC. CAPSTONE is not affiliated with Pershing, LLC.

For reasons of economy, familiarity, administration, and reasons noted previously, CAPSTONE tends to recommend a single custodial location for clients. The criteria used by CAPSTONE for suggesting a certain custodian includes reasonableness of commission, ability to trade many client positions at once (block trade), receive duplicate confirms, other costs of trading, the ability to facilitate trades, access to client records, computer trading support, and other operational considerations, which may be a benefit to CAPSTONE or the Representative, but not necessarily to you. The custodian used for advisory services through CAPSTONE is TD Ameritrade Institutional. CAPSTONE is not affiliated with TD Ameritrade Institutional. CAPSTONE may receive referrals from custodians and clearing firms for Investment Advisor Representatives or Registered Representatives who may become registered with CAPSTONE and/or MFSC.

CAPSTONE participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. (TD Ameritrade), member FINRA/SIPC/NFA. TD Ameritrade is an independent [and unaffiliated] SEC-registered broker/dealer and FINRA member. TD Ameritrade offers to independent investment advisors services such as custody of securities, trade execution, and clearance and settlement of transactions.

When an account is opened at Pershing, trades and holdings may generate commissions and ongoing revenues for Private Client Services and the Representative acting in a Registered Representative capacity. Clients or Representatives may call trades into the trading desk of Private Client Services, which is an order-taking service offered as a convenience to Representatives and clients. Additionally, some clients hold investments at various institutions directly. In that event, the Representative may include those assets on the advisory billing. Nearly all clearing firms/custodians provide research reports on products, either from proprietary research or on a contracted basis. Additionally, custodians/brokerage firms provide CAPSTONE with free software and internet access to the account information. User support is also available to CAPSTONE at no charge. Representatives approved by the clearing firms/custodians may use the research and services for all clients, and a higher commission is not charged for using the same. Some custodians provide or reimburse Representatives with software for reporting, fee-billing, data consolidation, and marketing assistance. In the event a client directs CAPSTONE and the Representative to use a particular broker/dealer, the Representative may not be able to obtain a more favorable commission and may not be able to obtain volume discounts or best execution. In addition, under these circumstances a disparity in commission charges may exist in the commissions charged to clients who direct the Representative to use a particular broker or dealer. When possible, some Representatives utilize the process of aggregation or block trading of client transactions. This allows the Representative to execute transactions in a more timely, equitable, and efficient manner and seeks, but does not guarantee, a reduction of overall commission charges. CAPSTONE's policy is to aggregate client transactions where possible and when advantageous to clients, but is not ensured for all clients' transactions.

Review of Accounts

Accounts are reviewed by the Representative with the client on a periodic basis, typically three times per year. Clients may request other reviews as the personal circumstances dictate. Triggers for reviews could include economic or market activity, life changes indicated by the client, client requests, or other factors. We ask that you immediately contact your Representative if any material changes occur in your personal financial situation, such as a loss of a job, illness, inheritance, or any other factor that could materially change your investment objectives and/or risk tolerance. Representative activities are reviewed and supervised by CAPSTONE. Reviews are conducted on a quarterly basis and may be completed by the Chief Compliance Officer, Partners or administrative associates. The review includes an audit of the fee billing charges and general activities or transactions of the accounts. Reports are not distributed to clients. For questions on supervision of Representatives, please call our office at 360-570-9888.

Additionally, you will receive at minimum monthly reports from the custodian to help you review and track your account activities. In most cases, you are provided electronic access to review your accounts.

Client Referrals and Other Compensation

As noted in the Other Financial Industry Activities and Affiliations section above, CAPSTONE and the Representatives may receive compensation through the following arrangements:

- Financial Planning Fees
- Fees for Investment Management Services
- Referring clients to a third party manager or asset management platform
- Invitation to annual marketing, due diligence, or compliance conferences
- Sales and seminar support and client prospecting data to help the Representative's marketing efforts
- Invitations to participate on advisory councils, investment committees, or incentive clubs
- Invitations to reward or marketing events and trips
- Commissions and/or fees paid through Private Client Services on securities products
- Additional Services
- Interest Income and/or other revenue sources

Representatives who have solicited for Investment Managers prior to joining CAPSTONE may have clients with Investment Managers for which CAPSTONE does not have a selling agreement. Their clients will remain with these Investment Managers with fees paid to CAPSTONE if CAPSTONE secures a selling agreement with such Manager. However, if CAPSTONE is unwilling or unable to secure an agreement with such Manager then CAPSTONE will not collect fees nor will the capacity to service the account by CAPSTONE Representatives be available. Additionally, CAPSTONE offers a platform where a CAPSTONE Representative may join another Representative to provide advisory services for clients. In such cases, total payment to CAPSTONE is disclosed on the advisory agreement.

CAPSTONE may participate in TD Ameritrade's Institutional customer program and may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between CAPSTONE's participation in the program and the investment advice it gives to its clients, although CAPSTONE receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount):

- research related products and tools; consulting services; access to a trading desk serving advisor participants;
- access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts);
- the ability to have advisory fees deducted directly from client accounts;
- access to an electronic communications network for client order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers;

- receipt of duplicate account and confirmation statements; and
- discounts on compliance, marketing, research, technology, and practice management products or services provided to CAPSTONE by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by CAPSTONE Representatives.

Some of the products and services made available by TD Ameritrade through the program may benefit Representative but may not benefit you. These products or services may assist CAPSTONE in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As a part of its fiduciary duties to clients, CAPSTONE endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by CAPSTONE or its related persons in and of itself creates a potential conflict of interest and may indirectly influence CAPSTONE's choice of TD Ameritrade for custody and brokerage services.

CAPSTONE does not compensate any person who is not a CAPSTONE employee for client referrals.

Custody

Custody of account assets will be maintained with the custodian and not by CAPSTONE. The only exception to this is the ability to electronically debit advisory fees with your express permission granted in the Advisory Agreement. The custodian will deliver, normally monthly but at least quarterly, a statement showing all transactions occurring in the account during the period covered by the account statement and the funds, securities, and other property in the account at the end of the period. CAPSTONE and the Representative will rely on the custodian to present values based upon information provided by the issuer of that security or other nationally recognized source as reported by the custodian. It is important for you to carefully review the statement and our listed fees from the custodian on a regular basis. You understand that investments without an active trading market, such as direct participation programs, are highly illiquid, and the amounts shown on the statements will not accurately reflect the current liquidation value. With these investments, any stated value on the custodian statement should not be used for determining the present value of the asset.

Investment Discretion

When written authorization is provided by the client, Representatives of CAPSTONE have the sole discretionary trading authority on accounts. The written authority is noted within the client's Advisory Agreement. To place any restrictions on the investments in an account, note the same in the Advisory Agreement "Exclusion/Restriction" page. Additionally, if you want to add exclusions or restrictions after you have already executed the Advisory Agreement, please call our office at 360-570-9888.

You may also have the option to enter into a non-discretionary Advisory Agreement with CAPSTONE if you do not want to grant discretionary trading authority to your Representative. In the event the Representative refers the client to a third-party money manager, the discretionary authority will be granted through the advisory contract signed with the respective money manager.

Voting Client Securities (Proxy Voting)

The Client agrees that Advisor will **not** vote any proxy for securities held in the Client's managed account(s), but may assist in helping client better understand the issue(s) before them.

Financial Information

CAPSTONE is required to provide certain financial information or disclosures about its financial condition. CAPSTONE 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. Additionally, CAPSTONE has been a Washington LLC since 2004. To request any information on CAPSTONE, please call our office at 360-570-9888.

Requirements for State Registered Advisors

A. CAPSTONE is owned and managed by Patrick E. McClelland, Sandra Drennon and Steven Elliott.

Patrick E. McClelland was born in 1956. He is a Certified Wealth Preservation Planner (CWPP) as ascribed by the Wealth Preservation Institute, passed series 6,7,24,63 and 65 securities examinations as well as Washington State Life, Health & Disability insurance licenses. Mr. McClelland has served in the securities industry since 1991. Post high school he studied with the Berean School of the Bible and is an ordained minister. He is the founding partner of CAPSTONE Investment Group, LLC (2004) and previously served as Executive Vice President/Investment Services Manager of a local bank investment subsidiary. Mr. McClelland's current and historical Broker/Dealer and Registered Investment Advisor affiliations are as follows:

01/2016	Present	PRIVATE CLIENT SERVICES	REGISTERED REPRESENTATIVE
02/2012	12/2015	CETERA ADVISORS	REGISTERED REPRESENTATIVE
08/2006	02/2012	PACIFIC WEST FINANCIAL CONSULTANTS, INC.	INVESTMENT ADVISOR REPRESENTATIVE
05/2004	Present	CAPSTONE INVESTMENT GROUP, LLC	PARTNER/PORTFOLIO MANAGER
08/2006	02/2012	PACIFIC WEST SECURITIES, INC.	REGISTERED REPRESENTATIVE
06/2004	08/2006	SECURITIES AMERICA ADVISORS, INC.	INVESTMENT ADVISOR REPRESENTATIVE
05/2004	08/2006	SECURITIES AMERICA, INC	REGISTERED REPRESENTATIVE

Sandra K. Drennon, born in 1965, is a Certified Senior Advisor (CSA) as ascribed by the Society of Certified Senior Advisors. Ms. Drennon has been a Partner of CAPSTONE Investment Group since 2008, and passed her series 6,7,63 and 65 securities examinations as well as Washington State Life, Health & Disability insurance licenses. Sandra has served in the securities industry since 1991, including Vice President/Investment Services of a local bank investment subsidiary. Beyond industry registrations Ms. Drennon's post high school education includes two years at Central Washington State University. Her current and historical Broker/Dealer and Registered Investment Advisor affiliations are as follows:

01/2016	Present	PRIVATE CLIENT SERVICES	REGISTERED REPRESENTATIVE
02/2012	12/2015	CETERA ADVISORS	REGISTERED REPRESENTATIVE/INVESTMENT ADVISER
05/2008	Present	CAPSTONE INVESTMENT GROUP, LLC	PARTNER/PORTFOLIO MANAGER
05/2008	02/2012	PACIFIC WEST FINANCIAL CONSULTANTS, INC.	INVESTMENT ADVISOR REPRESENTATIVE
05/2008	02/2012	PACIFIC WEST SECURITIES, INC.	REGISTERED REPRESENTATIVE
10/2004	05/2008	FIRST MONTAUK SECURITIES CORP.	REGISTERED BROKER

Steven V. Elliott, born in 1981, holds his series 7 & 66 securities examinations as well as Washington State Life, Health & Disability insurance licenses. His formal education includes a BS in International Business from Oral Roberts University and an MBA from Oklahoma State University. Mr. Elliott joined CAPSTONE in 2010 and has been a Partner since 2012. Steven previously served several years with Morgan Stanley Smith Barney as an Investment Advisor. Mr. Elliott's current and historical Broker/Dealer and Registered Investment Advisor affiliations are as follows:

01/2016	Present	PRIVATE CLIENT SERVICES	REGISTERED REPRESENTATIVE
02/2012	12/2015	CETERA ADVISORS	REGISTERED REPRESENTATIVE/INVESTMENT ADVISER REPRESENTATIVE
07/2010	Present	CAPSTONE INVESTMENT GROUP LLC	PARTNER/PORTFOLIO MANAGER

07/2010	02/2012	PACIFIC WEST SECURITIES, INC.	SECURITIES ADVISOR
06/2009	07/2010	MORGAN STANLEY SMITH BARNEY	MASS TRANSFER
06/2007	07/2010	CITIGROUP GLOBAL MARKETS INC.	FAA (PRE-HARTFORD)
05/2003	05/2007	UNITED STATES ARMY	INFANTRYMAN

- B. McClelland and Drennon separately own investment real estate properties; McClelland, Drennon and Elliott volunteer time of service in certain community non-profit organizations, all of which are considered outside business activities. Neither McClelland, Drennon or Elliott spend enough time in these endeavors to materially impact their responsibilities to CAPSTONE, its employees or clients.
- C. CAPSTONE does not manage advisory services in a performance-based fee structure. Fees are calculated either by asset level or a specific fee for services rendered. However, Representatives may refer you to another investment manager who offers a performance-based fee structure. Such investments may carry a higher degree of risk to investors, and need to be discussed in detail with CAPSTONE Investment Advisor Representatives. CAPSTONE would receive a stated fee from the product provider for such a service and may be a conflict to an investor.
- D. Neither CAPSTONE, its management or Investment Advisor Representatives have been involved in any investment related arbitration claim.
- E. Neither CAPSTONE, its management or employees maintain any relationship or arrangement with any issuers of any securities.
- F. Every effort has been made to disclose material conflicts of interest regarding the investment advisor, its representatives or any of its employees, which could be reasonably expected to impair the rendering of unbiased and objective advice as described by California Code of Regulations CCR § 260.238(k).

Privacy Policy

It's important for you to know that we do not sell your information to anyone. We recognize our obligation to keep information about you secure and confidential. We restrict access to non-public personal information about you to those representatives and employees who need to know that information to provide products or services to you. We also maintain physical, electronic, and procedural safeguards to guard your non-public personal information. This notice describes how we handle your financial information that we collect in doing our business.

CAPSTONE assembles non-public personal information about you from applications and other forms which they receive from you and from oral and email communications. We may also receive information from consumer reporting agencies or public databases. Some of CAPSTONE's representatives independently provide insurance sales or other services to you and receive information in the same way from you. All of the information that CAPSTONE collects through its representatives who are also employed in other non-affiliated businesses such as insurance sales will necessarily be disclosed to them in those other capacities. And information they collect from you in those other non-affiliated capacities will necessarily also be known to them as representatives of CAPSTONE. In both cases, however, they will not disclose the information if you notify us that you do not want the information used in any capacity other than the one in which you have dealt with the representative.

If you wish to opt out of such disclosure, call 360-570-9888. Be aware that by opting out, it will prevent the disclosure of your information between CAPSTONE and a CAPSTONE representative's additional business pursuits. For example, if a CAPSTONE Representative also has an insurance practice, that representative would not be able to discuss insurance business with you without first getting your permission. At such time as CAPSTONE and the representative terminate their relationship with one another, information that has been disclosed by one to the other may be retained by both of them if they have so agreed as a part of a transfer of a portion of the business that was previously handled by the representative.

We may also provide non-public personal information about you to non-affiliated third parties as permitted by law. An example of this would be the sharing of your information with the Financial Industry Regulatory Authority (FINRA) or the Securities and Exchange Commission (SEC) or the Washington State Department of Financial Institutions (DFI) as they oversee our activities. Another example would be the sharing of your information with a mutual fund or other such company in order to process your business.

This privacy policy statement is being sent on behalf of CAPSTONE Investment Group, LLC and any affiliated Broker/Dealer Registered Representatives.

Our Team (Form ADV Part 2B)



PATRICK E. MCCLELLAND

Having served over 25 years in the financial services industry, most of those in the investment and financial advisory discipline, Pat has enjoyed much experience developing long term investment plans for individuals and small businesses. Coming from the banking and lending sector, Pat is accustomed to looking at the big picture in client needs by focusing on debt management, total portfolio construction, personal wealth management and ultimate investment strategies.

Pat carries many industry licenses, including series 6, 7, 24, 63 & 65 securities registrations, as well as the Washington State Life, Health & Disability insurance license.

He utilizes his training and experience in the industry to customize investment plans for each client, while co-managing multiple investment models with Investment Committee members Sandra K. Drennon, Steven V. Elliott, Jeff A. Wachtman and Gabriel Wadsworth. Between the five of them they share nearly 100 years of experience meeting the financial needs of others, and their market perspectives remain disciplined, diverse and appropriately allocated.

Pat served nearly 10 years as Investment Services Manager for a local bank, developing a deep understanding of market idiosyncrasies, client needs analysis, and risk management. He takes a “top down” approach to the economy and financial markets, evaluating economic and political forces as they impact investment strategies. This perspective has gained him the confidence of his investors to monitor risk and to better meet their long term financial needs. Pat is an ordained minister, is married to his wife, Valorie, of 36 years and has twin adult sons.



SANDRA K. DRENNON

Sandi has served over three decades in the financial services industry, twenty-five of those in the investment and financial advisory discipline. Ms. Drennon began her career in banking while attending college and very quickly found her area of passion within the financial industry. Having achieved many industry client standard recognition awards along the way, Sandi currently co-manages multiple investment models for the firm to specific disciplines, maintaining client-centric needs analysis through proactive technical analysis. Her attention to detail and disciplined market analysis allow her to offer her clients a different approach to money management. She is a hands-on manager, devoting much time to implementing the investment strategies of the firm while working closely with her clients developing long term investment plans with a focus in areas such as debt control, portfolio tax efficiency, retirement income planning, and wealth transfer. Sandi is sensitive to and works tirelessly towards achieving a balance of risk management and proper asset allocation for her clients' overall financial needs and goals.

Sandi holds many industry licenses, including series 6,7,63 and 65 securities registrations, as well as her Washington State Life, Health & Disability insurance license. She is a Certified Senior Advisor (CSA), as ascribed by the Society of Certified Senior Advisors, and is currently working on her Retirement Income Certified Professional (RICP) designation through the American College of Financial Services. The RICP is an advanced designation in the retirement income planning field.

Sandi is married to her husband, Mike, and they have six adult children and three grandchildren between them. Sandi is very involved in her local church, volunteering many hours a year within the community. She and her husband's most recent charitable contribution took them to Cambodia in January 2012, and again in January 2015 and 2016, through FCOP International where their passion and love for children touch the lives of orphans in Prek Bey, Steung Somrong, Kong Pixay, Anlong Veng, Phsa Chas, and Chomka Chek.



STEVEN V. ELLIOTT, CFP®

Steven's roots lie in the Midwest having been born and raised in central Kansas, but he and his family are incredibly grateful to call Olympia their home. His upbringing and professional experience instilled in him the importance of clear communication, complete dedication to the task at hand and keeping life simple whenever possible.

Following four years of active duty service in the Army, Steven began his career as a Financial Advisor with the Olympia office of Morgan Stanley Smith Barney and had great success helping his clients navigate a difficult and ever-changing economic environment. During this time Steven consistently ranked among the top of his peers on a national basis for his excellence in client service. His time with a large, national firm was invaluable in providing a view of the best-practices in wealth management and how to distill those resources down to clients at a local level. Steven also brings extensive experience and insights into the practice of local portfolio management and broader-based financial planning.

Along with Investment Committee team members, Patrick E. McClelland, Sandra K. Drennon, Jeff Wachtman, and Gabriel Wadsworth, Steven co-manages the firm's various investment models with a particular focus on the fundamental merits of a current or potential investment. Like his partners, Steven takes a top-down view of the global economy and from that perspective seeks to identify pockets of value and opportunity. While the proper management of client assets is essential, it is equally important to Steven to ensure that the management of his clients' wealth is in constant alignment with their overall financial needs and ultimate goals. He prides himself in having a global view of money management, delivered within a truly local firm thereby offering the best possible advice and direct asset management.

Steven holds the mark of CERTIFIED FINANCIAL PLANNER(TM), and has earned the prestigious CFP® designation. Steven carries series 7 and 66 registrations as well as the Washington State Life and Long Term Care insurance licenses. His formal education includes a BS in International Business from Oral Roberts University and an MBA from Oklahoma State University. Steven is married to his wife, Brook, and they have two children, Gracie and Hazel.



JEFF A. WACHTMAN

Jeff is a well-known expert in risk-managed investing programs designed to help retirees preserve and increase their income. Mr. Wachtman began his career in 1986 with a large national insurance company and was appointed Regional Investment Products Specialist and Training Coordinator. In 1996, in the pursuit of broader access to investment opportunities for his clientele, he became the founding partner of Cambridge Financial Services, Inc. He has been educating seniors in the Puget Sound area for over 20 years on how to avoid the most common investment mistakes. He carries the Series 63 and 65 securities licenses, and the Washington State Life, Health & Disability insurance license.

Mr. Wachtman's articles on Successful Investing and Dynamic Asset Management have been published in several publications including The Daily Olympian, Moni-Research and in online investment advisory websites. He has also provided advisory services to mutual funds and has managed investment programs through Select Advisors, a network of approximately 600 programs from top money managers across the country.

Jeff chose the Pacific Northwest to raise his family, moved here in 1984, and enjoys all that it offers with his wife, Jonel, four children, and twelve grandchildren.



GABRIEL WADSWORTH

Having grown up in Papua New Guinea as the son of missionaries, Gabe realized at an early age that he wanted to use his skills to help people. While studying at Saint Martin's University, Gabe was granted a Student Fellowship in the Saint Martin's Honor Society; the Society of Fellows, and was named to the Dean's List every semester he attended. Gabe started at CAPSTONE Investment Group as an intern, working on many projects while completing his formal education. Upon graduation CAPSTONE Investment Group engaged Gabe as a Research and Support Technician, where he worked with Portfolio Managers and Advisors providing technical and fundamental research, as well as client care.

Gabe's various positions have given him experience in both technical and fundamental analysis, which have served as excellent tools for analyzing investments and transmitting data to support the Portfolio Managers at CAPSTONE Investment Group.

Gabe's current position in the CAPSTONE team is the role of Financial Advisor Associate / Research Analyst, where he plays a vital role as a member of the CAPSTONE Investment Committee. His daily duties consist of conducting research, executing the firm's trades, as well as servicing client relationships where needed.

Gabe is a graduate of Saint Martin's University with a B.A. in Business Administration with a concentration in Finance, and has completed some MBA classes. He carries the Series 66 License, as well as Washington State Life and Disability Insurance Licenses.

Additionally, Gabe is a CFA® Level I Candidate.

Some of Gabe's passions are family, golf, fishing, and education. He is married to his High School Sweetheart, Kira and they have a daughter named Emmalyn.



JANINE PENNINGTON

Janine hails from Nuremberg, Germany and brings with her a wonderful, international perspective as well as extensive business and client service experience. Prior to her employment with CAPSTONE, Janine served as Personal Banker with Bank of America and was recognized as one of the top ten bankers in the South Sound Market in 2013. Her experience in financial services and client service has made her an excellent and valued part of the Team.

As Office Manager, Janine oversees client communication and service as well as a variety of critical back office functions. Her diligence and client-centric mindset are critical in providing the best of service to the valued clientele of CAPSTONE Investment Group.

Janine majored in Business Management and Economics while in Advanced High School in Nuremberg, Germany and excelled in those subject areas. She has continued those pursuits by taking Accounting, Business and Economics classes at Pierce Community College. She is fluent in both English and German.

Janine is married to her husband, Dan.