

# FIRM BROCHURE

FORM ADV PART 2A



Patton | Investment Management

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August 4<sup>th</sup>, 2017

This brochure provides information about the qualifications and business practices of Patton Investment Management LLC.

If you have any questions about the contents of this brochure, please contact us at: (646) 335-6431 or by email at: info@pattonim.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Patton Investment Management LLC is a Registered Investment Advisor. "Registration" does not imply a certain level of skill or training.

Additional information about Patton Investment Management LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Patton Investment Management's CRD number is: 173642

## Item 2: Material Changes

Item 4: Patton has moved its office to 16700 Valley View Ave, Suite 300, La Mirada, CA 90638

### Previous Amendments:

07/17/2017

Item 4: Patton has moved its office to 3215 Stonybrook Dr, Anaheim, CA, 92804

07/07/2016

Item 4: Patton has moved its office to 25 Pacifica #5302, Irvine, CA 92618

05/24/2016

Item 4: Patton converted to a California LLC in May 2016.

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## **Item 4: Advisory Business**

Patton Investment Management LLC (“PIM” or “Patton”) began operations in 2013 and was later reorganized as a Limited Liability Company under the laws of the state of Delaware in February 2014. Patton converted from a Delaware LLC to a California LLC in May 2016. The firm is wholly owned by Charles Patton and the principal place of business is located in Anaheim, California, USA.

Patton provides investment advice to clients via discretionary management of separate accounts. Patton’s advice is not limited to a particular type of investment. Patton does not provide financial planning, estate planning, insurance products, tax advice, or accounting services.

Patton manages client accounts according to a common investment strategy. However, client portfolios may differ due to the availability of investment opportunities, tax considerations, timing of cash flows, suitability considerations, and the size or type of account. Clients may not impose restrictions on particular securities or types of securities except to satisfy ERISA requirements, employer trading restrictions, or other compliance obligations.

Patton does not participate in any wrap fee programs.

As of August 4th 2017, Patton manages a total of \$2,971,783 all on a discretionary basis.

## **Item 5: Fees and Compensation**

### **FEE SCHEDULE**

Pursuant to a signed investment advisory contract, each client will pay PIM an advisory fee based on a 2.00% annual rate. Fees are paid in arrears at the end of each calendar month according to the value of the client’s portfolio on the last business day of that month. Fees may be negotiated and PIM reserves the right to waive or reduce the advisory fee at its discretion. Lower fees for comparable services may be available from other sources.

### **PAYMENT OF FEES**

With written authorization from the client, the qualified custodian will deduct advisory fees directly from the client’s account. PIM may also agree to bill clients for fees incurred at the end of each period. Accounts initiated or terminated during a calendar month will be charged a pro-rated fee. PIM does not accept the prepayment of fees.

### **CLIENTS ARE RESPONSIBLE FOR THIRD PARTY FEES**

Clients are responsible for the payment of all third party fees (i.e. custodian fees, brokerage fees, transaction fees, etc.). Those fees are separate and distinct from the fee charged by PIM. For more information on brokerage fees, please see item #12 of this brochure.

Neither PIM nor its supervised persons accept any compensation for the sale of securities or other investment products.

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

Pursuant to an Investment Advisory Agreement, PIM may enter into performance-based fee arrangements with clients who meet certain financial requirements. Performance Fees are assessed quarterly and are calculated based on 20% of net positive capital gains and capital appreciation of a client's assets.

Performance fees may also create an incentive for our firm to recommend investments that may be riskier or more speculative than those that we would recommend absent a performance fee arrangement. PIM may receive increased compensation with regard to unrealized appreciation as well as realized gains in the client's account.

### **SIDE-BY-SIDE MANAGEMENT**

We manage accounts that are charged performance-based fees while at the same time managing accounts (perhaps with similar objectives) that are not charged performance-based fees ("side-by side management"). Side-by-side management may create conflicts of interest, such as an incentive for our firm to favor accounts for which we receive a performance-based fee. To help mitigate these conflicts, we have put procedures in place to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. For example, PIM utilizes block trading whenever possible; which involves transacting in a security simultaneously for multiple clients who may have different advisory fee methodologies.

### **FINANCIAL REQUIREMENTS**

In order to qualify for performance based fees, the client entering into the contract must have net worth of \$2,100,000; or \$1,000,000 managed by the advisor. Also, performance-based fees will only be charged in accordance with the provisions of CCR Section 260.234.

## Item 7: Types of Clients

PIM currently provides services to individuals and high net worth individuals. Patton requires an initial minimum funding of \$50,000 for individual accounts and \$250,000 for institutional accounts. The account minimum is negotiable and may be waived depending on the client and situation.

## Item 8: Methods of Analysis, Investment Strategies & Risk of Loss

### **METHODS OF ANALYSIS**

Patton's methods of analysis do not involve significant or unusual risk. However, every method of analysis has its own inherent risks, which are described below:

**Technical Analysis** involves the analysis of past market data, primarily price and volume, to search for patterns used to help predict favorable conditions for buying or selling a security. The assumption is that the market follows discernible patterns and if these patterns can be identified then a prediction can be made. The **risk** is that markets do not always follow patterns and relying solely on this method may not work long term.

**Fundamental Analysis** involves determining a company's value and expected future earnings based on an analysis of financial statements, management, and competitive advantages. The value of a

company is theoretically dependent upon the performance of the underlying business and the cash flows generated by its operations. However, securities prices may fluctuate independent of these factors. Prices may not change as expected even when Patton correctly assesses the prospects of the business. The **risk** assumed is that the market will fail to reach expectations of perceived value.

**Cyclical Analysis** involves the analysis of business cycles and macroeconomic trends to find favorable conditions for buying and selling financial assets. Cyclical analysis assumes that markets react in cyclical patterns which, once identified, can be leveraged to provide performance. The **risk is** that markets do not always repeat cyclical patterns.

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### **INVESTMENT STRATEGIES**

PIM generally seeks investment strategies that do not involve significant or unusual risk. However, it will utilize short term trading, short sales, frequent trading, leverage, and options trading; and clients should be aware that there is a material risk of loss using any of those strategies.

**Short Sales** - The mechanics of short sales involve additional risks, including theoretically unlimited potential for loss not limited to the initial capital committed to the position. Interest costs and dividends reduce the return from a short sale.

**Short Term Trading** risks include liquidity, economic stability, and the volatility of markets.

**Frequent Trading** can affect investment performance, particularly through increased brokerage and other transaction costs. Any capital gains due to short sales and assets held for less than one year may be taxable at a higher rate.

**Leverage** - Patton's investment strategy involves the use of leverage, through investments made using borrowed funds to purchase shares (investing on margin) and through the use of short sales, in which shares must be borrowed from a third-party before being sold. Leverage enables clients to take on additional exposures so that clients' assets may be greater than their capital. The increased exposure magnifies the effect of price changes, both positive and negative, which may result in greater volatility of returns.

**Options Trading** (including covered options, uncovered options, and spread strategies) involve a contract to purchase or sell a security at a given price, not necessarily at market value. In addition to the risks of the underlying asset, options also involve risks from the use of leverage, as previously discussed. The price of options may be more volatile than the underlying asset. Because options are bilateral contracts, they also involve counterparty risk with the exchange or clearing house, which could fail to satisfy its contractual obligations.

### **GENERAL RISKS**

**Strategy** - Patton cannot guarantee that its strategy will be implemented at all times, or in full. Patton has full discretion and a broad mandate, and it may make investments not in keeping with the general description provided in this Brochure. There can be no guarantee that suitable investment opportunities will be available at all times.

**General Risk of Loss** - Investing places assets at risk. Asset prices can change rapidly and without warning, which can result in temporary, or mark-to-market, as well as permanent loss of some or all of the capital invested. Clients should not invest funds required to meet near-term spending needs. Patton does not guarantee the performance of its investment strategy or any particular investment.

**Liquidity** - Patton may not be able to rely on a continuous quoted market for securities held by clients. It may not be possible to close illiquid positions in a timely fashion, or at all. Less liquid securities may experience higher volatility as well.

**Omission of Risks** - This Brochure does not provide a comprehensive list of every conceivable source of risk. Patton cannot predict every possible outcome of an investment, and it cannot disclose every potential risk factor for every investment to clients. Clients may suffer losses for any reason or no discernible reason.

#### **RISKS OF SPECIFIC SECURITIES UTILIZED**

Patton does not recommend primarily a particular type of security.

#### **Item 9: Disciplinary Information**

There are no criminal or civil actions, administrative proceedings, or self-regulatory organization proceedings to report.

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

Neither PIM nor its representatives are registered as, or have pending applications to become, a broker/dealer or representatives of a broker/dealer.

Patton is engaged in business as a Commodity Trading Advisor and is exempt from registration.

Other Relationships - PIM has no relationship with other financial industry firms and PIM does not utilize or select other advisers or third party managers.

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

##### **CODE OF ETHICS**

PIM employees maintain a strong commitment to abide by the CFA Code of Ethics and Standards of Professional Conduct. PIM will provide a copy of the CFA Code of Ethics and Standards of Professional Conduct to any client or prospective client upon request. Mr. Patton is not a CFA Charterholder.

PIM also does not permit activity of any kind that may be considered insider trading.

##### **RECOMMENDATIONS INVOLVING MATERIAL FINANCIAL INTERESTS**

PIM does not recommend, buy, or sell for client accounts any security in which PIM or a related person to PIM has a material financial interest.

##### **INVESTING PERSONAL MONEY IN THE SAME SECURITIES AS CLIENTS**

Patton Investment Management LLC and its related persons may buy or sell securities that it also recommends to clients. To mitigate conflict of interest, PIM and related persons are prohibited from shorting securities that are owned by clients. Also, PIM and related persons will not buy a security that is being shorted in client accounts. In other words, PIM will not bet against client positions with its own money.

#### **TRADING SECURITIES AT/AROUND THE SAME TIME AS CLIENTS' SECURITIES**

PIM and employees are prohibited from initiating transactions for their own account prior to initiating identical or similar transactions in client accounts. This policy is designed to prevent a conflict of interest where employees benefit from transactions placed in client accounts.

### **Item 12: Brokerage Practices**

#### **FACTORS USED TO SELECT CUSTODIANS AND/OR BROKER-DEALERS**

Patton selects broker-dealers for client transactions after careful consideration of market access and cost. Patton seeks to transact with the lowest cost provider available, taking into account transaction costs, best execution, financing charges, and other account fees evaluated on an overall basis. Patton also considers the ease with which its strategy can be implemented on the broker-dealer's trading platform.

Currently, Patton recommends clients hold accounts at Interactive Brokers LLC, an unaffiliated third-party broker-dealer and custodian. Patton believes Interactive Brokers currently offers the lowest trading commissions and financing costs by a significant margin. Patton engages in periodic reviews of commission rates and offerings of other platforms and may update its recommendation should more competitive alternatives become available.

#### **RESEARCH AND OTHER SOFT-DOLLAR BENEFITS & BROKERAGE FOR CLIENT REFERRALS**

PIM does not receive soft dollar benefits from a broker-dealer or third party in connection with client securities transactions. PIM does not receive any referral compensation or benefit from any broker or third party.

#### **DIRECTED BROKERAGE**

Patton does not allow clients to specify the broker-dealer used to execute transactions. Clients must use Interactive Brokers LLC for all transactions. Not all investment advisers require their clients to direct brokerage. By requiring clients to use Interactive Brokers LLC we may be unable to achieve most favorable execution of client transactions and this may cost clients more money.

#### **AGGREGATING (BLOCK) TRADING FOR MULTIPLE CLIENT ACCOUNTS**

PIM maintains the ability to block trade purchases across accounts. Block trading may benefit a large group of clients by providing PIM the ability to purchase larger blocks resulting in smaller transaction costs to the client. The purchase or sale of securities is carried out in aggregate across client accounts whenever possible. Declining to block trade can cause more expensive trades for clients.

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

Client accounts are reviewed at least monthly by the President to ensure each account's holdings are in line with investment objectives and changing conditions affecting the economy and financial markets. If a client deposits or withdraws funds, or communicates a material change in his or her financial

condition, Patton will undertake an immediate review of the account and evaluate whether Patton's investment strategy remains suitable.

Clients will receive daily trade confirmations from the broker for each transaction in their accounts as well as monthly statements and annual tax reporting statements from their custodian showing all activity in the accounts, such as Investment Advisory Fees, dividends, and interest. All statements and reports will be provided by the broker or custodian; PIM itself will not provide reports to the client.

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

PIM does not receive any economic benefit, directly or indirectly from any third party for advice rendered to PIM clients. PIM does not directly or indirectly compensate any person for client referrals.

### **Item 15: Custody**

PIM does not have custody of client funds or securities except for fee deduction by the qualified custodian. Clients may authorize PIM (in the Investment Advisory Agreement) to instruct the broker dealer or other qualified custodian to debit Advisory fees directly from the client's account. However, as noted in Item 13 above, clients will receive statements not less than monthly from the qualified custodian, and we encourage you to review those statements carefully.

Patton follows these safeguards for having constructive custody of clients' funds and securities by direct debiting Advisory fees:

1. Patton obtains written authorization from the client to deduct advisory fees from the account held with Interactive Brokers.
2. Interactive Brokers provides monthly statements to clients showing all disbursements for the account, including the amount of the advisory fees.
3. Each time a fee is directly deducted from a client account, Patton concurrently:
  - a. Sends the qualified custodian an invoice of the amount of the fee to be deducted from the client's account; and
  - b. Sends the client a statement itemizing the fee. Itemization includes the formula used to calculate the fee, the value of the assets under management on which the fee is based, and the time period covered by the fee.

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

Patton has discretionary authority to manage investment accounts on behalf of clients. Discretionary authority means that Patton has been granted a limited power of attorney to place trades on the client's behalf without obtaining prior approval from the client for each transaction.

#### **Clients grant discretionary authority by completing the following actions:**

- Signing an advisory contract that provides a limited power of attorney to place trades on the client's behalf. Any limitations to the trading authority will be added to the contract.

- Providing Patton with discretionary authority on the new account forms that are submitted to the custodian/broker.

Clients may not impose restrictions on particular securities or types of securities except to satisfy ERISA requirements, employer trading restrictions, or other compliance obligations.

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

PIM does not accept authority to vote client securities. Clients will receive their proxies and other solicitations directly from their custodian or a transfer agent. Clients are encouraged to contact PIM by phone or email to discuss any questions about a particular solicitation.

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

PIM does not require nor solicit prepayment of more than \$500 in fees per client, six months or more in advance and therefore does not need to include a balance sheet with this brochure.

PIM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. PIM has never been the subject of a bankruptcy petition.

### **Item 19: Requirements for State**

#### **PRINCIPAL EXECUTIVE OFFICERS & MANAGEMENT PERSONS; EDUCATION & BUSINESS BACKGROUND**

PIM currently has only one management person/executive officer: Charles Patton. Information about the education and business background for Charles Patton can be found on the ADV Part 2B form.

#### **OTHER BUSINESSES IN WHICH THIS ADVISORY FIRM OR ITS PERSONNEL ARE ENGAGED**

PIM is engaged in business as a Commodity Trading Advisor and is exempt from registration.

#### **PERFORMANCE-BASED FEES**

Pursuant to an Investment Advisory Agreement, PIM may enter into performance-based fee arrangements with clients who meet certain financial requirements. Performance Fees are assessed quarterly and are calculated based on 20% of net positive capital gains and capital appreciation of a client's assets. Performance-based compensation may create an incentive for PIM to recommend an investment that may carry a higher degree of risk to the Client. Please see Item 6 – Performance Fees for additional information.

#### **MATERIAL DISCIPLINARY DISCLOSURES FOR MANAGEMENT PERSONS OF THIS FIRM**

Neither PIM, nor its management persons, has been involved in an arbitration claim or been found liable in a civil, self-regulatory organization, or administrative proceeding.

#### **MATERIAL RELATIONSHIPS WITH ISSUERS OF SECURITIES**

Neither PIM, nor its management persons, has any relationship or arrangement with issuers of securities.

#### **MATERIAL CONFLICTS OF INTEREST**

All material conflicts of interest have been disclosed in this brochure.

**BROCHURE SUPPLEMENT**  
FORM ADV PART 2B

**Charles George Patton**  
CRD Number: 5425575  
Patton Investment Management LLC  
Investment Adviser Representative



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August 4<sup>th</sup>, 2017

This brochure supplement provides information about Charles Patton that supplements the Patton Investment Management LLC brochure. You should have received a copy of that brochure. Please contact the Chief Compliance Officer at (646) 335-6431 or info@pattonim.com if you did not receive Patton Investment Management LLC's brochure or if you have any questions about the contents of this supplement. Additional information about Charles Patton also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

Mr. Patton received an M.S. in Investment Management from the Cass Business School at the City University of London in 2010. In 2007, he graduated summa cum laude from Rensselaer Polytechnic Institute with a B.S. in Management. Mr. Patton was born in 1986. In the past 5 years Mr. Patton has held the following positions of employment:

- President, Patton Investment Management, Irvine, CA (7/2016 – Present)
- President, Patton Investment Management, Asheville, NC (7/2015 – 7/2016)
- President, Patton Investment Management, New York, NY (4/2013 – 7/2015)
- Fixed Income Analyst, Markit, New York, NY (11/2011 – 4/2013)
- Portfolio Loan Operations Analyst, Morgan Stanley, New York, NY (6/2011 – 11/2011)

## **Item 3: Disciplinary Information**

There are no criminal or civil actions to disclose. There are no administrative proceedings to report. There are no self-regulatory organization proceedings to report.

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

Mr. Patton is not actively engaged in any business or occupation other than Patton Investment Management LLC. However, Patton Investment Management LLC is also engaged in business as a Commodity Trading Advisor.

## **Item 5: Additional Compensation**

Mr. Patton does not receive any economic benefit from any person, company, or organization, in exchange for providing clients advisory services through Patton Investment Management LLC.

## **Item 6: Supervision**

As President and Chief Compliance Officer, Charles Patton is responsible to provide supervisory oversight for all activities of the firm; including his own supervision. Charles Patton's phone number is (646) 335-6431.

## **Item 7: Requirements for State-Registered Advisers**

- A. State Registered investment advisers are required to disclose a wider range of disciplinary information than described above. Mr. Patton has no such disciplinary information to report.
- B. Mr. Patton has never been the subject of a bankruptcy petition.