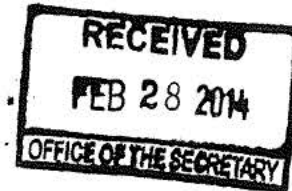


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-15627



In the Matter of

TRI-STAR ADVISORS,
INC., WILLIAM T. PAYNE,
AND JON C. VAUGHAN,

Respondents.

**MOTION OF RESPONDENTS TRI-STAR ADVISORS, INC.,
WILLIAM T. PAYNE AND JON C. VAUGHAN
FOR SUMMARY DISPOSITION PURSUANT TO
RULE 250 OF THE RULES OF PRACTICE OF THE COMMISSION**

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**RESPONDENTS' MOTION
FOR SUMMARY DISPOSITION**

Pursuant to Rule 250 of the Rules of Practice of the Securities and Exchange Commission (“Commission”) and to the Order Following Prehearing Conference and Setting Dates for Motions for Summary Disposition dated February 10, 2014, Respondents Tri-Star Advisors, Inc. (“TSA”), William T. Payne (“Payne”), and Jon C. Vaughan (“Vaughan”) hereby move for summary disposition as to all claims against them as set forth in the Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Act”) and Section 9(b) of the Investment Company Act of 1940 and Notice of Hearing (“OIP”).

GROUNDS FOR THE MOTION

In the OIP, the Commission alleges that Respondent TSA willfully violated Section 206(3) of the Act, 15 U.S.C. §80b-6(3), by engaging in principal transactions without providing written disclosures and obtaining clients’ consent for each such transaction, and that TSA violated Section 206(4) of the Act, 15 U.S.C. §80b-6(4), by failing to implement written procedures designed to prevent the 206(3) violations. OIP ¶¶ 7-11, 14, 16. The Commission further alleges that Payne and Vaughan caused TSA’s alleged violations. OIP ¶¶ 12-13, 15, 17.

The grounds for this motion are:

(a) Payne and Vaughan did not have the requisite *scienter* for “causing” liability under Sections 206(3) and (4) of the Investment Advisers Act of 1940 (the “Act”), 15 U.S.C. §80b-6(3) and (4). The Division of Enforcement has argued that scienter need not be established for “causing” liability and that a strict liability standard applies. As Respondents show herein,

scienter is indeed an element that must be proven, but cannot be shown based on the facts of this case; and

(b) TSA did not knowingly engage in principal trades in violation of Section 206(3) of the Act and did not knowingly violate Section 206(4) of the Act.

The Commission's claims against Respondents should therefore be dismissed.

STATEMENT OF FACTS

A. Facts Alleged in the OIP

The OIP alleges¹ that TSA provides investment advisory services to individuals and entities. TSA's investment strategy focused almost exclusively on fixed income securities, such as mortgage-backed bonds. To execute this strategy, TSA relied on TSF, its affiliated broker-dealer, for fixed income analysis and trade executions. OIP ¶ 7.²

According to the OIP, Payne and Vaughan made investment recommendations to TSA clients and, upon the clients' consent, TSF executed the transaction. During the relevant period, TSF used its inventory account to purchase mortgage-backed bonds for TSA advisory clients and then transferred the bonds to the applicable client account. TSF charged the advisory clients a sales credit for the trades, which was essentially a percentage mark-up (or mark-down). Payne and Vaughan, registered representatives of TSF for the trades, received 55% of the sales credit generated by each trade. *Id.* ¶ 8.

Payne and Vaughan are responsible for ensuring that TSA complies with its regulatory requirements, including Advisory Act requirements. *Id.* ¶ 9.

¹ Respondents dispute a number of the allegations in the OIP. Since this motion focuses on scienter, Respondents shall focus on that issue and not other aspects of the dispute.

² TSF is Tri-Star Financial, Inc., a registered broker-dealer. Respondents Payne and Vaughan (together with another individual, John Bott) are principals of TSF.

The OIP alleges that from July 2009 through July 2011, TSA, through TSF, engaged in 2,212 principal transactions with its advisory clients without providing prior written disclosure to clients that it would effect the trades on a principal basis, or obtaining consent from clients. *Id.* ¶ 10. The OIP further alleges that TSF collected approximately \$1.9 million in gross sales credits from the TSA Principal Transactions, paying approximately \$1 million to Payne and Vaughan for the alleged principal transactions while retaining the rest. None of the gross sales credits was paid to TSA. *Id.* ¶ 11.

Payne and Vaughan initiated and executed the TSA Principal Transactions. *Id.* ¶ 12. They are alleged to have known that TSA did not provide written disclosures to, or obtain consent from, TSA clients before completing principal transactions. *Id.* ¶ 12.

The OIP alleges that during the relevant period, TSA failed to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act provision regarding principal transactions. TSA's compliance manual did not contain any policies and procedures addressing principal transactions. *Id.* ¶ 13.

The Commission alleges that as a result of the above facts, TSA willfully violated Sections 206(3) and 206(4) of the Advisers Act, and Payne and Vaughan caused the violations. *Id.* ¶¶ 14-17. Respondents dispute these allegations. But even taking the allegations at face value, the Commission cannot show either scienter or knowing engagement in principal trades in violation of the Advisers Act.

B. Facts in the Record

The following is a summary of the facts in the record. The legal argument section discusses additional facts bearing specifically on Payne's and Vaughan's liability for "causing" the alleged violations. The deposition citations refer to the depositions of Respondent William

T. Payne (“Payne tr.”) Respondent Jon C. Vaughan (“Vaughan tr.”), and compliance officer Kelly Durham (“Durham tr.”) taken by the Staff during its investigation. The cited excerpts are submitted herewith.

TSA registered as an investment adviser with the SEC effective November 17, 2009. Nine months before that, on February 4, 2009, TSA entered into the first of its investment advisory compliance consulting agreements with The Advisors’ Resource, which functioned as TSA’s compliance consultant throughout the period of the events in question. *See Exhibit 1* (Agreement for Compliance Services (attached to email dated Feb. 15, 2013, from Roy Washington to R. Joann Harris)). Under this agreement, TSA's consultant provided advisory professional direction and compliance support services to TSA, including completing TSA’s investment adviser registration and adoption and implementation of compliance policies and procedures designed to comply with, and prevent violations of, all applicable securities laws, rules and regulations. TSA worked mostly with Linda Shirkey, the founder of The Advisors’ Resource. Payne tr. 69-71; Vaughan tr. 38-39; Durham tr. 20, 92-93. Ms. Shirkey is a highly-regarded compliance professional who has made several presentations at seminars and panels in which SEC personnel also participated. *See Exhibit 2* (email dated May 14, 2013, from Roy Washington regarding TSA: Information Requested).

On March 23, 2011, TSA received a letter (*Exhibit 3*) from Frances M. From, Staff Accountant at the Fort Worth Regional Office of the Commission, informing TSA that the Commission Staff was conducting an examination of TSA pursuant to Section 204 of the Investment Advisers Act of 1940, requesting certain information, and advising that the on-site phase of the examination was to begin on April 12, 2011. The letter did not specify any

particular possible violations that were being investigated. TSA provided the requested information, and the on-site examination took place.

Before the Staff's examination in April 2011, Respondents were unaware that TSA's practice of purchasing securities through TSF and then immediately allocating them to TSA clients constituted principal trading as defined by the Commission. Payne tr. 68-69; Vaughan tr. 36-37. Following the March 23rd letter from Ms. From, the principal trading issue was first mentioned by the Staff in passing, without a specific indication that there was anything wrong, during an initial telephone conversation between a Staff member and Kelly Durham, TSA's Chief Compliance Officer. Durham tr. 30-32. The next week, Ms. Durham attended a conference of the National Society of Compliance Professionals. At the conference, she was told by a lawyer in attendance that handling trades through TSF might violate Section 206(3). *Id.* 32.

Upon Ms. Durham's return to work she voluntarily raised the issue with the examiners and with Mr. Payne and Mr. Vaughan. *Id.* 32-33; Vaughan tr. 37-38. TSA investigated this issue and consulted with other investment adviser legal and compliance professionals. Vaughan tr. 37-38. By July 2011 TSA had changed its policies and procedures so that each customer is now informed and consents in writing prior to each individual trade handled through TSF. Durham tr. 51. On August 31, 2011, TSA received a deficiency letter (Exhibit 4) from Donna C. Esau of the Fort Worth Regional Office. The letter advised that TSA was in violation of Section 206(3) by reason of executing TSA clients' trades through TSF. The letter identified other deficiencies that have been corrected and are not at issue in this proceeding.

TSA responded to the deficiency letter on November 29, 2011, advising that TSA in July 2011 had fully implemented new written principal transaction policies and procedures designed to prevent violations of Section 206(3). *See* Letter dated November 29, 2011, from Mr. Vaughan

to Karen Mysliwicz (Exhibit 5), regarding Examination of Tri-Star Advisors Inc.; Payne tr. 114-117; Vaughn tr. 42-43.

Continuing its inquiry, the Staff requested voluminous information on several occasions through 2012 and the first six months of 2013. TSA and its counsel, Roy Washington, furnished all the requested information and responded to dozens of email communications from the Staff.

In August 2012, the Staff conducted depositions of Respondents Payne and Vaughan and Debra Binkley and Kelly Durham. Following those depositions, the Staff continued to communicate with TSA and Mr. Washington and to request further information, all of which TSA promptly supplied. TSA and the Staff also conducted negotiations to settle this matter. However, the negotiations were brought to a halt by the Staff's Wells letter and disagreements on aspects of the alleged violations.

LEGAL ARGUMENT

I. PAYNE AND VAUGHAN DID NOT HAVE THE REQUISITE SCIENTER FOR "CAUSING" LIABILITY

A. The Commission Must Show That Payne and Vaughan Had Knowledge or Awareness That Their Roles Were Part of an Improper Activity

The standard for "causing" a violation is the same as that for aiding and abetting a violation. For both, a person must have scienter – that is, knowledge or reckless disregard that the activity in question is improper. This is established by numerous decisions covering a variety of securities violations.

In *In the Matter of OptionsXpress, Inc., et al.*, Admin. Proc. File No. 3-14848, S.E.C. Release No. 490, 2013 WL 2471113 (June 7, 2013), which concerned violations of short-selling regulations, Chief Administrative Law Judge Murray held that awareness of improper activity is an element of a violation:

Causing and aiding and abetting violations of the securities laws requires proof of three elements: (i) a primary violation by another party; (ii) awareness or knowledge by the aider and abettor that his or her role was part of an overall activity that was improper; and (iii) that the aider and abettor knowingly and substantially assisted in the conduct that constituted the primary violation.

2013 WL 2471113, at *79, citing *Woods v. Barnett Bank*, 765 F.2d 1004, 1009 (11th Cir. 1985); *Investors Research Corp. v. SEC*, 628 F.2d 168, 178 (D.C. Cir. 1980); *Woodward v. Metro Bank*, 522 F.2d 84, 94-97 (5th Cir. 1975); *In the Matter of Erik W. Chan*, Securities Act Release No. 8078, 2002 WL 507022 (April 4, 2002). The chief judge further held that a “Respondent who aids and abets a violation also is a cause of the violation under the federal securities laws.” 2013 WL 2471113, at *79, citing *Sharon M. Graham*, 53 S.E.C. 1072, 1085 n.35 (1998), *aff’d*, 222 F.3d 994 (D.C. Cir. 2000).

In *In the Matter of Trautman Wasserman Co.*, S.E.C. Release No. 340, Admin. Proc. File 3-12559, 92 S.E.C. 1156, 2008 WL 149120 (Jan. 14, 2008), which concerned a late trading scheme, Judge Murray held that “causing” liability has the same scienter standard as aiding and abetting liability, finding one respondent liable for causing the violation, but another respondent not liable “because he did not have the level of awareness required and he did not know that his role substantially assisted in the violations.” 2008 WL 149120, at *18.

Several other Commission releases agree, holding individual respondents liable for causing a variety of securities law violations only because they possessed the requisite scienter:

- *In the Matter of Midsouth Capital, Inc.*, S.E.C. Rel. No. IA-3398, 103 S.E.C. Docket 1631, 2012 WL 1339061, at *4 (April 18, 2012): The principal was found liable for causing the firm’s failure to maintain net capital requirements because he “acted intentionally, or, at a minimum, with severe recklessness.”

- *In the Matter of The Rockies Fund, Inc.*, Rel. No. IA-26202, Admin Proc. File No. 3-9615, at p. 12 of 23 & fn. 64 (Oct. 2, 2003): The principals were found liable for causing the firm’s filing of materially misleading periodic reports because they “willfully aided and abetted these violations based on our findings above with respect to their scienter.”

- *In the Matter of Erik W. Chan*, Securities Act Release No. 8078, 2002 WL 507022, at *4-*5 (April 4, 2002): The individual respondent was found liable for causing the firm’s misrepresentations in a private placement memorandum because he “knew that these materials contained misrepresentations, but did nothing to correct them.”

- *In the Matter of Michael P. Sweeney*, Release No. 34-38436, 64 S.E.C. Docket 381, 1997 WL 134080, at *5-*6 (March 25, 1997): The individual respondent was found liable for causing the firm’s insider trading violations by reason of his knowledge of unlawful insider trading. The opinion held that the scienter requirement for “causing” liability is the same as that for aiding and abetting – that is, “a general awareness that his role was part of an overall activity that was improper,” and that the person “knowingly and substantially assisted the principal violation.”

The rationale for requiring scienter for aiding and abetting liability applies equally well to “causing” liability: to provide “protection for those persons whose involvement in securities law violations is in one respect substantial, yet wholly innocent.” *Investors Research Corp.*, 628 F.2d at 178. *Investors Research* rejects a negligence standard for that very reason.

The Commission has previously cited to Respondents two cases which also require a showing of scienter for “causing” liability. In *In the Matter of Mark N. Geman*, Rel. No. IA-1924, Admin. Proc. File No. 3-9032, at pp. 16-17 of 29 and fns. 72, 77 (Feb. 14, 2001), *aff’d*, 334 F.3d 1183 (10th Cir. 2003), the respondent was found liable for causing the violations only

because he knew and intended to commit the act which constituted the violation, or was “at the very least reckless.” In affirming the decision, the Tenth Circuit found “sufficient factual basis for the conclusion that Geman aided and abetted the violations with a state of mind of recklessness, if not willful disregard.” 334 F.3d at 1196. The Tenth Circuit thus recognized that the principal’s violation requires scienter. In *In the Matter of Clariden Asset Management (New York) Inc.*, Release No. IA-1504, Admin Proc. File No. 3-8747, 1995 WL 419299, at *2 (July 10, 1995), an individual respondent entered into a consent order and admitted that “she knew or should have known that such conduct failed to comply with the policy and procedure set forth in Clariden’s compliance manual.”

For the same reasons, the Commission must show that Payne and Vaughan knew or were aware of the impropriety under Section 206(4) of the Act of the alleged failure to have policies and procedures designed to prevent violations of Section 206(3).

B. The Record Shows That Payne and Vaughan Did Not Have Knowledge or Awareness That Their Roles Were Part of an Improper Activity

The record amply demonstrates that Payne and Vaughan did not know, and were not aware, that TSA was engaged in an improper practice. On the contrary, the facts demonstrate that Payne and Vaughan at all times acted in good faith and with diligence.

- The Respondents hired a respected consultant, The Advisors Resource, nine months before opening their advisory business. They wanted to ensure that their advisory firm was set up and operating in compliance with the law. See Exhibit 1 (first page); Payne tr. 69-72.
- TSA did not maintain a proprietary trading account, which is the primary means of doing principal transactions. The TSF account was used strictly to temporarily hold securities for allocation to clients’ accounts. See Exhibit 5 at p. 2; Vaughan tr. 58-60; Durham tr. 37-38.

Thus, the TSA account was not and could not have been used for dumping, manipulating prices, or any other kind of self-dealing.

- Payne and Vaughan did not engage in any client transactions in securities held in personal proprietary accounts.

- TSA advised its clients in its Form ADV and brochure that trades would be handled through TSF and commissions earned on those trades. *See Exhibit 6*, items 5, 6, 8 (Form ADV as of March 2011); *Exhibit 7* at pp. 3, 5, 7, 8-9, (brochure as of March 2011, describing trades handled through TSF). Thus, the Commission's allegation that clients were not informed is false. When TSA began operations, most of its customers were long-time clients of TSF, Mr. Payne and Mr. Vaughan, so they were already aware of TSF and its relation to TSA. *See Exhibit 5* at p. 2; Payne tr. 106-108; Vaughan tr. 61-64; Durham tr. 62-64, 67-68. Further, TSF charged TSA clients 1% less commission than non-TSA clients to offset TSA's advisory fee. *See Durham tr. 44.*

- Payne and Vaughan sought and used an established investment advisor compliance consultant for directional expertise and assistance with its initial investment registration process, its initial risks assessment, the development of written policies and procedures, its investment adviser compliance program and monitoring, and annual compliance program reviews and continuous program improvement. Their consultant continued to provide those services throughout the period in question and had complete knowledge of, and access to, information regarding the firm's business activities, client base, internal operations, and organizational structure. *See Exhibit 1.*

- TSA's consultant was eminently qualified and well-regarded as a compliance expert, and Respondents' reliance on her was reasonable and justified. *See Exhibit 1*; Payne tr.

69. She was actively involved with, and participated as a presenter and moderator in, the National Society of Compliance Professionals at which senior SEC Staff members regularly participate and attend. The Texas State Securities Board employed her as an advisor on investment adviser regulatory matters. She also served as moderator at the Commission's Fort Worth Regional Office's July 18, 2012 "CCO Inreach" seminar covering investment adviser and investment company regulation. She was a panelist in a similar program presented by the Fort Worth Regional Office in November 2013.

- Their consultant did not advise Respondents that the Commission viewed or would view the TSF account as a "principal" account for purposes of section 206(3) or that additional customer notice or consent was needed. *See* Vaughan tr. 38-39.

- Payne and Vaughan changed TSA's policies and procedures on TSF trades in July 2011 **before** receiving the Commission's deficiency letter of August 31, 2011. *See* Exhibit 5 at pp. 3-4; Payne tr. 115-118; Vaughan tr. 42-44; Durham tr. 70-71, 88-93. Those policies and procedures are subject to continual review.

- Ms. Durham, who learned of the problem at an April 2011 conference of the National Society of Compliance Professionals, voluntarily brought the issue to the attention of the Staff during the Staff's examination of TSA. *See* Durham tr. 30-33; Vaughan tr. 37-38.

These facts show that:

- (a) Payne and Vaughan at all times intended to comply with all securities laws;
- (b) They relied on an eminently qualified compliance professional;
- (c) Payne and Vaughan did not understand until April 2011 that handling trades through the TSF allocation account and earning commissions on those trades could run afoul of Section 206(3);

(d) Upon learning of the issue Payne and Vaughan remedied it quickly and unreservedly.

In the case of *SEC v. Slocum, Gordon & Co.*, 334 F.Supp.2d 144, 185 (D.R.I. 2004), the court's description of the principals' unawareness of the impropriety, and their actions taken once they learned of it, is very close to the situation of Mr. Payne and Mr. Vaughan:

Because the Court finds that neither Slocum nor Gordon acted with scienter, or a "mental state embracing intent to deceive, manipulate, or defraud," *Ernst & Ernst*, 425 U.S. at 193 n.12, 96 S.Ct. 1375, the Court cannot find they had a conscious awareness that SG & C was engaged in operating practices that created a potential conflict of interest. During the relevant time period, SG & C was subject to external examinations from both its own independent auditors and the SEC. Neither authority identified SG & C's account structure as a potential problem. The evidence demonstrated that when potential compliance issues were brought to SG & C's attention, Gordon took steps to remedy the situation by reformulating SG & C's practices. The evidence also showed that Slocum and Gordon communicated with and relied on the advice of outside counsel in creating its account structure initially, and then in reforming it after the SEC's examination in 1988. No evidence suggests that either Slocum or Gordon had knowledge that SG & C's account structure was improper, or that their account structure created a potential conflict of interest.

As a result, the Court is not persuaded that Slocum and Gordon had the requisite mental state to have aided and abetted SG & C's non-scienter-based violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-2(a)(2) issued thereunder. Thus, as no aiding and abetting was established, the Court rules in favor of Defendants on Counts 7 and 8.

Id. at 185.

Because of the above facts, the Commission cannot establish that Mr. Payne or Mr. Vaughan were "consciously involved in impropriety." *Slocum*, 334 F.Supp.2d at 184. *See also Monetta Financial Services, Inc. v. SEC*, 390 F.3d 952, 956 (7th Cir. 2004) (Commission failed to establish firm president's aiding and abetting of firm's violation, even though the firm was liable; the "SEC has not provided any evidence suggesting that [defendant] was, in fact, aware that disclosure of the IPO allocations was required" even if only recklessness was required); *SEC*

v. Howard, 376 F.3d 1136, 1143-48 (D.C. Cir. 2004) (vacating Commission sanctions order for failure show that defendant was aware of wrongdoing or demonstrated extreme recklessness); *SEC v. Steadman*, 967 F.2d 636, 647 (D.C. Cir. 1992) (principal of firm not liable for aiding and abetting firm’s violations where Commission failed to indicate any evidence that he was “generally aware that the Corporation’s subscription and redemption accounts were being managed improperly or that surprise audits were required”).³

For these reasons, the Commission’s claims against Respondents Payne and Vaughan should be dismissed.

II. TSA DID NOT KNOWINGLY ENGAGE IN PRINCIPAL TRANSACTIONS IN VIOLATION OF SECTION 206(3)

The OIP claims that TSA willfully violated Section 206(3) of the Act. Section 206(3) prohibits an adviser from *knowingly* engaging in principal transactions without prior disclosure and consent of the client.

After diligent search, we have found no guidance from the Act, the Commission, or case law concerning the definition of the term “knowingly” in Section 206(3). An analogous case, *SEC v. Leslie*, No. C 07-3444, 2010 WL 2991038 (N.D. Cal. July 29, 2010), concerned Section 13(b)(5) of the Exchange Act, 15 U.S.C § 78m(b)(5), which provides: “No person shall *knowingly* circumvent or *knowingly* fail to implement a system of internal accounting controls or *knowingly* falsify any book, record, or account described in paragraph (2).” (Emphases added.) The court held that the term “knowingly” requires the Commission to show that an individual defendant knew -- and not merely that he recklessly disregarded -- that he had failed to

³ *Slocum* and the other cases cited above are applicable because, as shown *supra*, the standard for aiding and abetting liability is identical to the standard for “causing” liability.

implement a system of internal controls. The court granted summary judgment to that defendant because the Commission failed to make that showing. 2010 WL 2991038, at *17, *27.

Similarly here, the term “knowingly” requires the Commission to show at least that TSA knew that it was engaged in principal transactions as defined by the Commission and set forth in Section 206(3). This reading is supported by the purpose of the section, which is to prevent the advisor’s self-dealing, dumping bad securities on clients, and price manipulation. *See Interpretation of Section 206(3) of the Investment Advisers Act of 1940*, 17 C.F.R. Part 276, Release No. IA-1732 (July 17, 1998), part I & fn. 4, 5. None of these ill motives is possible unless the advisor is aware that he is engaged in principal transactions.

In this case, TSA did not knowingly or recklessly disregard facts which would have indicated a problem for the reasons set forth *supra*. On the contrary, by hiring and relying upon an eminently qualified compliance professional upon whom the Commission itself has relied for authoritative presentations on compliance issues, by voluntarily bringing the matter to the attention of the Staff, and by its full cooperation during the Staff’s examination, TSA has demonstrated its intent to comply and its unawareness of the principal trade issue.


Therefore, TSA did not knowingly engage in principal transactions as defined by the Commission and therefore did not violate Sections 206(3) and (4) of the Act.

CONCLUSION






For all of the above reasons, the Commission’s claims against Respondents should be dismissed in their entirety. In the alternative, Respondents request a ruling that the Division of Enforcement must prove that Respondents Payne and Vaughan acted with scienter in order to establish "causing" liability.

Dated: February 27, 2014

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Exhibit A

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<p>UNITED STATES SECURITIES AND EXCHANGE COMMISSION</p> <p>In the Matter of:)) File No. FW-03686-A PARALLAX INVESTMENTS, INC.)</p> <p>WITNESS: William Thomas Payne PAGES: 1 through 134 PLACE: Texas State Securities Board 1919 North Loop West, Ste. 300 Houston, Texas DATE: Thursday, August 16, 2012</p> <p>The above-entitled matter came on for hearing, pursuant to notice, at 9:09 a.m.</p> <p>Diversified Reporting Services, Inc. (202) 467-9200</p>	<p style="text-align: center;">CONTENTS</p> <p>WITNESS: EXAMINATION</p> <p>William Thomas Payne 4</p> <p style="text-align: center;">EXHIBITS</p> <table border="0"> <thead> <tr> <th>EXHIBITS:</th> <th>DESCRIPTION</th> <th>IDENTIFIED</th> </tr> </thead> <tbody> <tr> <td>12</td> <td>July 12, 2012 subpoena</td> <td>7</td> </tr> <tr> <td>13</td> <td>Background questionnaire</td> <td>8</td> </tr> <tr> <td>14</td> <td>Board of directors minutes - July 8, 2008</td> <td>78</td> </tr> <tr> <td>15</td> <td>5/7/2010 email</td> <td>88</td> </tr> </tbody> </table>	EXHIBITS:	DESCRIPTION	IDENTIFIED	12	July 12, 2012 subpoena	7	13	Background questionnaire	8	14	Board of directors minutes - July 8, 2008	78	15	5/7/2010 email	88
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<p style="text-align: center;">Page 2</p> <p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the Securities and Exchange Commission:</p> <p>4 JOANN HARRIS, ESQ.</p> <p>5 BARBARA GUNN, ESQ.</p> <p>6 Division of Enforcement</p> <p>7 Securities and Exchange Commission</p> <p>8 801 Cherry Street, Unit 18</p> <p>9 Fort Worth, Texas 76102</p> <p>10 817-978-6467</p> <p>11</p> <p>12 On behalf of the Witness:</p> <p>13 ROY WASHINGTON, ESQ.</p> <p>14 18115 Heaton Drive</p> <p>15 Houston, Texas 77084</p> <p>16 281-859-6774</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: center;">PROCEEDINGS</p> <p>MS. HARRIS: Let's go on the record at 9:09 a.m. on August 16, 2012. Please raise your right hand.</p> <p>Whereupon,</p> <p style="text-align: center;">WILLIAM THOMAS PAYNE</p> <p>having been first duly sworn, was called as a witness herein and was examined and testified as follows:</p> <p style="text-align: center;">EXAMINATION</p> <p>BY MS. HARRIS:</p> <p>Q Do you understand that you'll remain under oath throughout these proceedings here today?</p> <p>A Yes.</p> <p>Q Okay. If you would please state and spell your full name for the record.</p> <p>A William Thomas Payne, P-A-Y-N-E.</p> <p>Q We've met informally off the record, but, again, my name is Joann Harris. I'm an attorney with the SEC's Fort Worth regional office. Joining me today is Barbara Gunn. She's an assistant regional director also in the Fort Worth office. We are both officers of the United States Securities and Exchange Commission for purposes of this proceeding.</p> <p>This is an investigation by the United States Securities and Exchange Commission in the matter of</p>															

1 Q Okay. Who from Tri-Star Advisors, besides Mr.
2 Vaughan, to your knowledge was also involved in dealing
3 with the SEC exam staff?

4 A Be Kelly Durham.

5 Q Okay. As you probably know one of the concerns
6 that the examination staff flagged during their
7 examination -- and as I understand it spoke to at least
8 Ms. Durham about -- were the 2063, the principal
9 transactions. Is that familiar to you? Do you
10 understand what I'm referencing?

11 A Yes, I do.

12 Q Okay. At what point in time do you first
13 remember being made aware of this potential principal
14 trade issue?

15 A To my best recollection is when Kelly Durham
16 brought it to our attention.

17 Q Okay. And do you have a specific -- like in
18 meeting? Was it a telephone call?

19 A I do not recollect.

20 Q Was it at or about the time that the SEC
21 examination was taking place?

22 A I believe it was after the examination had
23 taken place. I believe she went to a seminar or some
24 type of informational meeting and came back and gave the
25 information to Jon Vaughan and myself.

1 **Q Okay. What did -- what do you remember Ms.**
2 **Durham sharing with you about that conference?**

3 A That there was 2063 which had a caveat in there
4 that we were unaware of that stated that if we didn't own
5 the broker-dealer it would be a different situation. If
6 we did own the broker-dealer and we had to pay attention
7 to what it is and to change our business model.

8 **Q After being made aware of the 2063 issue what**
9 **was your continued involvement as far as that issue went?**
10 **After you first became aware of it how involved were you**
11 **in further discussions of that issue?**

12 A We were very involved by getting counsel and by
13 getting our consultant which we had -- was Linda Shirkey.
14 We had her from the beginning. She was also unaware of
15 2063.

16 **Q Who is Linda Shirkey again?**

17 A She's in the industry of helping put together a
18 registered investment advisory firm. She's very, very
19 astute in the role of investment advisory. She's done --
20 her resume is just awesome. So we from the beginning
21 used her to put together Tri-Star Advisors and leaned on
22 her heavy to help us in the regulatory area.

23 **Q Is Ms. Shirkey affiliated with a firm -- a**
24 **consulting firm or is she a solo consultant? Do you**
25 **know?**

1 A She's a solo consultant to my knowledge.

2 MR. WASHINGTON: Point of clarification or I
3 can hold for later.

4 MS. HARRIS: What's your clarification?

5 MR. WASHINGTON: That Linda Shirkey actually
6 had -- she's a founder of a compliance consulting firm --
7 Advisors Resources.

8 THE WITNESS: It's a small firm. Am I correct?

9 MR. WASHINGTON: She has five employees.

10 BY MS. HARRIS:

11 **Q Now, is Ms. Shirkey actually the person -- of**
12 **this larger group of five or some employees is she the**
13 **one that actually provides the compliance consulting**
14 **personally or is there someone else in her office that**
15 **handles that?**

16 A That's who we met with and who -- I don't know
17 if she farms that out to someone else in her office or
18 not. But we dealt pretty --

19 **Q Directly with her?**

20 A -- exclusively with her.

21 **Q Okay. And has Tri-Star Advisors had this**
22 **consultant relationship with Ms. Shirkey and her firm**
23 **since its inception?**

24 A Yes. I will say that we started a corporation
25 first before we got a compliance officer, so I have to

1 clarify. There was a little bit of time involved before
2 we could get everything put together. But she was in the
3 very beginning of that.

4 **Q So let me just ask you generally, what is your**
5 **understanding of what the types of services that Ms.**
6 **Shirkey has provided to Tri-Star Advisors?**

7 A To get our -- to put together the
8 broker-dealer, let us know what types of reporting we
9 need to do, all the compliance we need to have ready.
10 She worked hand-in-hand with Kelly to put everything
11 together with our compliance manual --

12 MR. WASHINGTON: The word you used was
13 broker-dealer. You were actually referring to --

14 THE WITNESS: The investment advisor -- I'm
15 sorry. Investment advisor.

16 BY MS. HARRIS:

17 **Q So I'm sorry. You're saying reporting and --**

18 A Compliance manual, getting ready for audits.

19 **Q Now, for those types of things that you just**
20 **generally described -- reporting, helping you with the**
21 **compliance manual, getting ready for the audit -- those**
22 **types of things, are any of those activities -- are those**
23 **activities that you personally also participated in?**

24 A I participated in all the meetings with Linda
25 Shirkey.

1 **Q** Did you actually review, say, drafts of the
2 **compliance manual and things of that nature?**

3 A That would be Kelly -- Kelly Durham's job. But
4 we were given the final draft and were consulted on many
5 areas of the compliance manual. I cannot tell you that I
6 was at every meeting with Linda Shirkey, but I was in the
7 majority of the meetings with Linda Shirkey.

8 **Q** So I think my -- sort of going back to my
9 **question a few minutes ago I'd asked generally, once the**
10 **2063 issue was raised basically what was Tri-Star**
11 **Advisors' response? Like what happened next? And you**
12 **mentioned getting counsel and getting consultant. Was**
13 **there a separate legal counsel you hired besides Ms.**
14 **Shirkey or were those one and the same thing? I want to**
15 **make sure I'm not --**

16 A They're one and the same.

17 **Q** Besides getting the consultant, Ms. Shirkey,
18 **was there any other action items taken that you recall**
19 **that Tri-Star Advisors did in response to the 2063 issue**
20 **being raised?**

21 A Yes. We made sure that we would comply with
22 all the rules and regulations that 2063 had mandated.

23 **Q** And did you lead that compliance effort or did
24 **somebody else do that?**

25 A I would say that would be a team effort between

1 BY MS. HARRIS:

2 Q Okay, 2949, do you have it in front of you?

3 A Yes, I do.

4 Q The paragraph kind of in the middle of the page
5 that starts out: "Most advisory clients of TSA..." Do
6 you see that?

7 A Yes, I do.

8 Q Go down in that paragraph about five lines,
9 there's a sentence, and I'll go ahead and read that into
10 the record as well. It states: "Mr. Payne and I have
11 been specific in our discussion with clients and
12 potential clients that fixed income securities placed in
13 TSA client accounts would continue to be obtained through
14 TSF and would be charged both an investment advisory fee
15 through TSA and a markup or markdown on each transaction
16 through TSF."

17 Stopping right there, I want to focus on the
18 sentence that seem a concern, disclosures that have been
19 made to clients and potential clients. Can you tell me
20 what is meant there about we've been specific in our
21 discussions?

22 A When we look at our managed accounts, we
23 discuss for our investment clients what is appropriate,
24 what is right for it, what we're looking for, what type
25 of risk the client can take. We're just specific in what

1 we're doing as far as out discussions.

2 Q With whom?

3 A Between Jon Vaughan and myself.

4 Q What about disclosures you make to your actual
5 clients, do you make them aware of the types of fees that
6 they're going to be paying if you purchase a fixed income
7 security for them and their an advisory client?

8 A If they're an advisory client, and we are
9 talking about present now as it stands, if they're going
10 to be charged any fees in any way, they must be disclosed
11 to the client ahead of time; otherwise, there are no fees
12 to really disclose to the client.

13 Q Okay. I guess what I'm trying to understand is
14 the way this sentence is written, it sounds like
15 historically you and Mr. Vaughan have said that you've
16 always been up front with your TSA clients and that
17 saying yes, you'll be charged a TSA management fee and
18 you'll also be charged a fee from this other entity
19 called Tri-Star Financial. Has that been the case, is
20 that true?

21 A That is true.

22 Q Okay. Now, give me -- let me know or tell me
23 when those disclosures have been made, at what point in
24 the process with each client. Do you do that disclosure
25 each and every time you make a trade for that client, or

1 was this a disclosure you make at quarterly meetings, at
2 the outset of the relationship with a client? I guess
3 I'm a little unclear as to when those oral disclosures
4 would be made.

5 A Most of those were done at the inception. As
6 the letter states, most of the clients were already
7 clients of Tri-Star Financial. We let them know that
8 they could go into an arrangement with Tri-Star Advisors
9 and what it would entail. That's when we said you would
10 be getting a lower fee by becoming an advisory client,
11 and that we felt that this is the way the industry was
12 going to probably be going. Instead of being involved in
13 the day-to-day actions of every trade that we're trying
14 to do for you, you could let us do more of the advisory
15 work. We have some clients that want to be more
16 hands-on, ones that want to be doing what they do in
17 their lives.

18 In that case, in my recollection, almost every
19 client I told them up front that we would be making fees,
20 I did not tell them what the amount was, I just said
21 Tri-Star will make it but we will always make sure that
22 you're going to be charged a lower fee than any of the
23 clients that are non-advisory clients, and that's the way
24 we disclosed it at the onset, both Jon Vaughan and
25 myself.

1 A Now or in the past?

2 **Q In the past. Prior to the SEC exam.**

3 A Prior to the SEC, no, not to my recollection.

4 MR. WASHINGTON: But with respect to the
5 principal transactions that attributed to TSA, the answer
6 is no, but there were things done with respect to TSF
7 from the confirmations and the designation and the
8 confirmation that the transaction was a principal
9 transaction, those things that are specified within the
10 confirmations.

11 MS. HARRIS: Yes, and I'm not talking about
12 confirmations, I'm talking about oral disclosures that he
13 had.

14 MR. WASHINGTON: Okay. Because there are some
15 written ones within the ADV.

16 MS. HARRIS: Right. We're just talking about
17 the oral disclosures, so I'm trying to parse this out and
18 not get into that. We'll get in the written stuff in a
19 second.

20 BY MS. HARRIS:

21 **Q And so that was in the past when you said that**
22 **basically your disclosures were made at the inception of**
23 **the relationship. How is that changed today? Has it**
24 **changed today?**

25 A Yes. Today I basically would let them know

1 that if there's a fee charged, and I show them the letter
2 that we would be using if there is a fee involved in the
3 purchase of those securities, and if there's not, that
4 you will not be seeing it.

5 Q Okay. And the fee, you mean the markup.

6 A Markup or markdown.

7 Q All right. Now -- and again, I'm focused on
8 the language that you guys used in this letter to the
9 exam staff, that's why I'm trying to understand exactly
10 what you meant. Again, kind of going back to
11 discussions -- now let's move away from any oral
12 disclosures that you had with clients or potential
13 clients about TSA fees and TSF fees -- in the past what
14 was your understanding of the type of written disclosures
15 that would be given to clients that would lay that out
16 that you will be charged a TSA fee and a TSF fee as well?

17 A In the ADV.

18 Q And when did the client or potential clients
19 get the ADV?

20 A At the inception.

21 Q Again sticking to the past, were there any
22 other written disclosures, to your knowledge, that were
23 provided to clients besides the ADV?

24 A Not to my knowledge.

25 Q Now moving to what happens today currently,

1 **what are the written disclosures that you're aware of**
2 **that are provided to clients to explain the types of fees**
3 **that they will be paying?**

4 A Number one is the letter that they have to sign
5 and send back on each transaction when there is a markup
6 or a markdown, and the ADV.

7 **Q And when you say markup or markdown, are you**
8 **including both of the two markups that we saw in**
9 **Exhibit 4, the trade desk markup and the rep markup?**

10 A Yes, we are.

11 **Q Have you personally had to employ the new**
12 **disclosure and consent process that's currently in place,**
13 **as I understand it?**

14 A Yes.

15 **Q Okay. Tell us how that works.**

16 A Most of the time we use fax, we'll fax it to a
17 client, explain what we're doing, how it's working, and
18 they send it back with the okay, and/or if they don't
19 have a fax machine which is pretty rare, then they have
20 to sign it and send it back.

21 **Q And how are those procedures working, in your**
22 **estimation?**

23 A Very clumsy.

24 **Q And what do you mean by clumsy?**

25 A Well, sometimes a client is on vacation for two

1 weeks, or they don't get to their internet in time, or
2 things like that. I mean, it does work, I'm just saying
3 it's very, very clumsy.

4 **Q Do you ever use email for consent purposes?**

5 A Yes, most of the time we use email.

6 **Q When these new procedures, the new consent and**
7 **disclosure procedures were put in place, did you receive**
8 **any training on how those procedures were supposed to**
9 **work and how to fill out the document, how to fill out**
10 **the forms, that type of thing?**

11 A We just had a meeting between Linda Shirkey and
12 Kelly Durham who walked us through everything, for Jon
13 Vaughan and myself.

14 **Q Who reviews those forms, or does anybody review**
15 **those consent and disclosure forms that are in use now?**

16 A Kelly Durham.

17 **Q And what is your understanding of what Ms.**
18 **Durham does with those forms?**

19 A Makes sure that the bonds aren't allocated
20 until they're received back from the client.

21 MS. HARRIS: Let's go ahead and go off the
22 record and take a short break.

23 (Whereupon, a brief recess was taken.)

24 MS. HARRIS: Let's go back on the record.

25 MS. HARRIS: Mr. Payne, we just got back from a

PROOFREADER'S CERTIFICATE

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In The Matter of: PARALLAX INVESTMENTS, LLC
Witness: William Thomas Payne
File Number: FW-03686-A
Date: Thursday, August 16, 2012
Location: Houston, TX

This is to certify that I, Donna S. Raya,
(the undersigned), do hereby swear and affirm that the
attached proceedings before the U.S. Securities and
Exchange Commission were held according to the record and
that this is the original, complete, true and accurate
transcript that has been compared to the reporting or
recording accomplished at the hearing.

(Proofreader's Name)

(Date)

CERTIFICATE OF REPORTER

I, Leslie Berridge, hereby certify that the foregoing transcript consisting of 132 pages is a complete, true, and accurate transcript of the investigative hearing indicated, held on August 16, 2012, at Houston, Texas, in Parallax Investments, LLC. I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared by me or under my direction.

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Exhibit B

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<p>1 APPEARANCES:</p> <p>2</p> <p>3 On behalf of the Securities and Exchange Commission:</p> <p>4 JOANN HARRIS, ESQ. 5 BARBARA GUNN, ESQ. 6 Division of Enforcement 7 Securities and Exchange Commission 8 801 Cherry Street, Unit 18 9 Fort Worth, Texas 76102 10 817-978-6467</p> <p>11</p> <p>12 On behalf of the Witness:</p> <p>13 ROY WASHINGTON, ESQ. 14 18115 Heaton Drive 15 Houston, Texas 77084 16 281-859-6774</p> <p>17 18 19 20 21 22 23 24 25</p>	<p>1 PROCEEDINGS</p> <p>2 MS. HARRIS: We're on the record at 1:12 p.m. 3 on August 16, 2012. 4 Please raise your right hand. 5 Whereupon, 6 JON CARTER VAUGHAN 7 having been first duly sworn, was called as a witness 8 herein and was examined and testified as follows: 9 EXAMINATION 10 BY MS. HARRIS: 11 Q Do you understand that you will remain under 12 oath throughout these proceedings today? 13 A Yes, ma'am. 14 Q And if you would, please state and spell your 15 full name for the record. 16 A First name is Jon, J-O-N, middle name is 17 Carter, C-A-R-T-E-R, last name is Vaughan, V-A-U-G-H-A-N. 18 Q Thank you. We've met informally off the 19 record, but again, my name is Joann Harris. I'm an 20 attorney for the SEC's Forth Worth office. Joining me 21 today, who you also met, and she's not in the room at the 22 moment, is Barbara Gunn. She's an assistant regional 23 director, also in the Fort Worth office. And for 24 purposes of today's proceeding, we are both officers of 25 the United States Securities and Exchange Commission.</p>

1 A Yes, ma'am. And on the phone.

2 Q **And on the phone.**

3 A Yes, ma'am.

4 Q **I won't promise that's all the questions I have**
5 **but I think that helps me a little bit.**

6 Let me ask you generally about the SEC
7 **examination that took place in April of 2011. Do you**
8 **remember that?**

9 A Yes, ma'am.

10 Q **And how do you remember that? Did you**
11 **participate in that, were you interviewed?**

12 A I did. In the initial examination, seemed like
13 there was -- I apologize -- a Frances was one of the
14 ladies and there were maybe two or three ladies and a
15 gentleman.

16 Q **Fran Fron?**

17 A Yes, ma'am. They came in for maybe a week, two
18 weeks, I don't really recall. But yes, ma'am, I did go
19 in on multiple occasions and sit with them and answer
20 questions that they had about whatever they were
21 reviewing at the time.

22 Q **When I say principal trading, is that a term**
23 **that you're familiar with?**

24 A Yes, ma'am.

25 Q **Did you discuss principal trading with the SEC**

1 **examiners?**

2 A Yes, ma'am.

3 **Q And what do you remember from your discussions**
4 **about that?**

5 A I remember that it was a little confusing at
6 the time because coming from the broker-dealer side,
7 principal trading always meant having a proprietary
8 brokerage account. Now, we don't really trade for our
9 own account at Tri-Star Financial, but just having that
10 account meant if bonds come in and hit that account and
11 then you mark them up, that's a principal transaction.

12 And so on the Tri-Star Advisor side that
13 question came up: Are you principal trading? Which I
14 believe we said we don't think we're principal trading
15 because Tri-Star Advisors doesn't have a trading account.
16 We have an omnibus allocation account, but we didn't have
17 any principal trading account.

18 And I'm not sure if it was before or after
19 that, I know Kelly Durham, our CCO, had gone to SEC
20 conference -- I don't remember if it was a week before or
21 a week after, but sometime in there --

22 **Q Around the examination?**

23 A Around the examination -- that she came back
24 and said, There's something funny here with the principal
25 trading and we need to kind of look into it a little

1 more. And we have our outside compliance consultant that
2 we hired from day one to get everything right. We
3 contacted her after your initial examination and we sort
4 of delved into a little bit more, and that was the point
5 where we said, Okay, this may be principal trading, not
6 because we have an account but because Bill has ownership
7 of an affiliated dealer. So that was when we kind of
8 became aware of the situation.

9 **Q So the first time that you became aware of a**
10 **potential issue involving principal trading and Section**
11 **206(3) was at or around the time of the SEC examination**
12 **and when Ms. Durham went to that conference.**

13 A Yes, ma'am. Because she came back and said,
14 We're going to need to look into this rule a little bit
15 more. Because there's some subsets of it that, quite
16 frankly, our compliance consultant didn't catch, and so
17 we investigated it more.

18 **Q Who is that outside compliance consultant?**

19 A Linda Shirkey. And I apologize, I don't
20 remember the name of her company.

21 **Q I understand her firm that she works with,**
22 **owns, I'm not sure exactly, is Advisor's Resource. Does**
23 **that sound right?**

24 A That sounds right, yes, ma'am.

25 **Q Have you personally met with Ms. Shirkey over**

1 **the years about compliance issues with respect to**
2 **Tri-Star Advisors?**

3 A Yes, ma'am. We try to get together -- well,
4 it's only now three years in, but it seemed like we did a
5 semiannual or annual review just to kind of talk about
6 the changes in the rules and the regs, what we needed to
7 be aware of. Now, we've been in more communication with
8 her lately, obviously, regarding the rule 206(3), the
9 principal trading rule.

10 Q **Did you ask Ms. Shirkey how come she hadn't**
11 **caught this earlier?**

12 A Yes, ma'am, I did.

13 Q **What did she say?**

14 A She said the rule was stated there kind of
15 under the same assumption that without a proprietary
16 trading account, and it was sort of a subset of that, the
17 control interest factor, and that was one that I can
18 understand can be overlooked but makes me wonder do I
19 need to have two compliance consultants. But we caught
20 it, we corrected it, and so I feel confident now that we
21 won't have any sort of oversights on those things.

22 Q **Okay. Well, just to give you a little bit of**
23 **context, I understand that post SEC examination, Tri-Star**
24 **Advisors and Tri-Star Financial has changed its process a**
25 **bit on how it actually brings in these CMOs and handles**

1 things before it moves off to the brokerage side of the
2 account.

3 **Q So are there any -- under the new process are**
4 **there any additional steps like disclosures consents**
5 **that -- for advisory clients that folks at Tri-Star**
6 **Advisors has to go through now to get a markup on a CMO?**

7 A Yes, ma'am.

8 **Q Can you walk me through what you understand**
9 **those to be.**

10 A Yes, ma'am. With the help of Roy and Linda, we
11 went through and drafted a document you may have seen,
12 and it's a consent form, and what we disclose on that for
13 our advisory clients, if I buy a bond through Tri-Star
14 Financial, okay? -- and in order to be a principal -- it
15 doesn't matter; it's a principal trade if it touches
16 Tri-Star for a nanosecond, so --

17 **Q Tri-Star Financial.**

18 A Tri-Star Financial for a nanosecond it's a
19 principal trade, and we recognize that. So what -- the
20 process we changed was we created the document -- Linda
21 and Roy did, technically, that discloses very clearly,
22 here's the security description; here is the best --
23 the -- whether we bought or sold, the best price
24 available, the actual price paid, so the best price
25 available would be disclosed in there, and I'm just going

1 to use this as an example: 99 cents, which would be
2 where Tri-Star Financial bought the bonds, and then the
3 actual price paid would be par or 100, which the client
4 has paid -- the advisory client. And on \$100,000, that
5 equates to \$1000.

6 We show markup/markdown. I put in there \$1000.
7 I email it to my advisory clients. They have to consent
8 back to that that trade is acceptable before settlement.
9 If they don't, the trade gets canceled and it gets
10 allocated away to somebody else.

11 And so they have to consent back after seeing
12 all the full disclosure, and we implemented that -- I
13 think I kicked that off with my people back in October,
14 and I didn't have any issue. Everybody's fine with it;
15 they continue on.

16 **Q So I take it that this -- the new procedures**
17 **getting the client's consent to these markups -- it**
18 **sounds like that process, at least as far as you're**
19 **concerned, seems to be working pretty well?**

20 A Yes, ma'am. There's a little discontent from
21 my clients who --

22 **Q Like what?**

23 A You know, the reason they wanted to move to the
24 advisory, so I didn't have to get permission every time,
25 and now I'm still having to get permission. But in the

1 bond market we're not trading all day every day like a
2 stock kind of thing. We may buy one bond a month; you
3 know, two bonds a month.

4 So for the most part it's not impacting my
5 clients overly, because I send them one email.
6 Settlement day on bonds is usually a week or two weeks
7 out, so -- and I know most of the time if they're on
8 vacation; anymore they get emails -- everybody with
9 technology, they get email.

10 So a little discontent, but most of them
11 understand the process. I was very clear about the
12 issue. I said, Here's the problem. You know, I'm an
13 owner of Tri-Star Financial and also of TSA, which we
14 disclose in all of our initial meetings with clients.

15 In the asset management agreement it's stated
16 in there in all of those things, and we go over that
17 verbally that I'm an owner of both; I'm going to be
18 compensated both sides, you know.

19 And so we go over that, so they're aware of it.
20 Nobody's really had any issue other than I've had to
21 cancel one trade, and the guy was on vacation. He was a
22 little angry about that.

23 I said, Well, I apologize; that's just -- we'll
24 get you the next bond.

25 **Q Right. I'm handing you a document that's been**

1 THE WITNESS: Roy Washington. I apologize.

2 BY MS. HARRIS:

3 Q I just want to -- in this letter, on the first
4 page, there's a reference to a term called riskless
5 principal -- let me read the sentence, and it's actually
6 the first full paragraph at the bottom of the first of
7 this exhibit, on page 2948.

8 The sentence goes, "While TSF, when acting as a
9 dealer, has engaged in principal transactions involving
10 markups and markdowns for the brokerage account clients,
11 the firm has done so almost exclusively on a riskless
12 principal basis."

13 Help me understand what you mean by riskless
14 principal.

15 A Yes, ma'am. Most larger brokerage houses --
16 and all of the big Wall Street firms, for example -- hold
17 proprietary accounts, and so what they'll do is they'll
18 hold proprietary securities.

19 They may own -- if you're a primary
20 broker-dealer, you trade with the US government, so
21 you're required, for example, to buy US Treasuries at
22 every auction from the US government.

23 So they'll own Treasuries, they'll own
24 corporates, they'll own mortgage securities and
25 collateralized mortgage obligations and munis; a billion

1 dollars or whatever the number is worth of inventory.

2 We're not that large, so we don't have the
3 luxury of being able to buy a bond and sit on it and
4 trade it as a proprietary security. So when we say
5 riskless, generally speaking we have an idea, and we at
6 Tri-Star Financial -- I'll have my client list for all of
7 my broker-dealer clients, my Tri-Star Financial clients.

8 And I'll say, Okay. As I go through the
9 accounts I'll add up and say, I could probably buy a
10 million dollars' worth of Dallas, Texas, municipal bond.
11 And I'll go to Debbie Johnson in this case, who happens
12 to be my municipal bond trader, and I'll say, DJ, I need
13 about a million bucks' worth of this bond.

14 I've already -- I already know that my
15 clients -- because we're talked about it -- will buy
16 those million dollars, so when DJ buys the bond, I call
17 all my clients, say, I bought this, and they say, Buy me
18 100, 100, 100, and then the trade is done.

19 Where it becomes a risk principal transaction
20 is when DJ goes out on her own accord and says, I'm just
21 going to buy a million of this, because I think it's
22 valuable, and then I'll see if you guys can sell it down
23 the road. Right?

24 So we already have orders in hand for
25 securities before she actually transacts with the street,

1 and that's why it's riskless, even though that's -- you
2 know, things can happen. The client wakes up and says,
3 No, I changed my mind. Then it becomes a risk. But
4 generally speaking we already have orders in hand before
5 we go out to the street, because we don't have inventory
6 to put them anywhere.

7 **Q Right. How frequently does it happen when the**
8 **situation you just described, you don't have orders in**
9 **hand -- you said DJ just goes out and buys stuff,**
10 **thinking it's a valuable buy. How often does that**
11 **situation occur?**

12 **A** Rarely. And if it happens, it's a very small
13 piece. It won't be anything of substantial size. We're
14 a very small broker-dealer, so I think the most inventory
15 we can carry is about a million dollars' worth.

16 It might be a bond that's \$50,000 in size that
17 DJ will get off of a bid list, or Leslie, in the case of
18 mortgage securities, she's always bidding mortgage
19 securities at prices she thinks are -- that we would be
20 interested.

21 She may win some; she may not win some. When
22 she does, she'll say, Hey, guys. I just bought this
23 bond. Who has an interest? And then all the brokers
24 look around and go, Oh, yeah, I can take it. But it's
25 usually 50 bonds, 100 bonds. It's not anything of any

1 massive size.

2 Q I want to focus your attention on the second
3 page of the letter; it's Bates-stamped 2949.

4 A Yes, ma'am.

5 Q There is a paragraph starts about the middle of
6 the page; it starts out, "Most advisory clients of
7 TSA" -- do you see that?

8 A Yes, ma'am.

9 Q If you go down in that same paragraph about
10 five lines, toward the end of that line, I'm just to read
11 a sentence to you.

12 It says, "Mr. Payne and I have been specific in
13 our discussions with clients and potential clients that
14 fixed-income securities placed in TSA client account
15 would continue to be obtained through TSF and would be
16 charged both an investment advisory fee, through TSA, and
17 a markup or markdown on each transaction through TSF."
18 Do you see that?

19 A Yes, ma'am.

20 Q Okay. As I read that, it sounds like this is
21 something that you are purporting to tell the examiners
22 that, hey, historically we've been very clear with our
23 clients -- advisory clients that if we're going to engage
24 in these types of transactions, because of the affiliated
25 nature of Tri-Star Financial and Tri-Star Advisors,

1 you're going to get charged two fees on a single
2 transaction. Is that fair?

3 A Yes, ma'am.

4 Q Can you explain to me in a little bit more
5 detail the specific circumstances in which you would have
6 those discussions? At what point in time of the client
7 relationship, at what point in time -- you know, right
8 before a trade? -- did you have these type of discussion?

9 A Yes, ma'am. In our -- from day one in our
10 asset management agreement we had multiple disclosures in
11 there that we're going to transact through Tri-Star
12 Financial. It was also disclosed several times -- and I
13 don't know the number -- in our ADV.

14 One of the things that I did personally is as I
15 would have clients come in, even if they were existing
16 Tri-Star Financial clients, or if they were new prospects
17 coming in, one of the key things I would do is I would
18 hold up my asset management agreement and say sort of a
19 specific thing I always like to cover.

20 I would say that this is a contract with me to
21 manage your money for 1 percent a year, whatever the
22 number was. But I would always emphasize; I said, This
23 is not a binding agreement. I want you to review it,
24 make sure you're comfortable with it, because if you wake
25 up one day and say, I'm going to go work with another

1 advisor, there's nothing in here that binds you to you
2 have to work with me for five years or I charge you some
3 penalty.

4 The other disclosure that I always said
5 verbally and still do when I have new clients come in is,
6 And also in here is the fact that I own both Tri-Star
7 Financial and both Tri-Star Advisors, and therefore I'm
8 going to be compensated twice. And that's exactly what I
9 would say, and they say, Okay, we understand that.

10 And I say, Because Leslie's doing her job, and
11 DJ and Chamie and all the traders; that's the
12 compensation that helps cover having the trade desk in
13 house versus relying on Fidelity and Merrill Lynch and
14 people to find me the best bonds. I trust my people
15 more.

16 And so we would have that verbally with them.
17 And since we've had to do the disclosure forms, I have
18 100 percent of my clients who have -- as in all of them
19 have done the principal consents where I've sent them, so
20 they were -- they are aware of that from the get-go.

21 **Q We talked a little bit about the consent**
22 **process, the new procedures, and you seemed to indicate**
23 **that they generally overall seem to be working pretty**
24 **well.**

25 A Yes, ma'am.

1 Q I think you gave one example where you had to
2 cancel something because a client was on vacation. He
3 wasn't happy about it, but, you know, that's just --

4 A That's the rules.

5 Q -- the way it goes sometimes. What is your
6 understanding of any additional review or any review at
7 all of these particular consent forms? Is there a
8 process in place that you're aware of that somebody like
9 Kelly Durham actually goes behind you and confirms that
10 all the consents and disclosures, et cetera, have been
11 filled out before settlement date and that type of thing?

12 A Yes, ma'am. She -- I'll tell you my -- I'll
13 start off with my personal process and then as it leads
14 to her review.

15 I have my cash flow sheet which shows all my
16 client accounts for the advisory firm. And when I'm
17 allocating securities, I note the amount of security for
18 each of those clients who it's suitable for.

19 And then I've got little check boxes on the
20 left. It's real high-tech stuff here. It says S for
21 sent, R for received. And so when I draft the document
22 which shows all the markup and all the bond description,
23 I draft all those, save them in a separate file, then I
24 email all those.

25 And once I email each one, I check off that I

1 sent it, and then once I start getting responses, I check
2 off that I receive. And then, you know, as we get
3 closer -- I always have a few laggards who -- you know,
4 oh, I saw the email; yeah, you need to respond.

5 I'll call them with a followup and a followup
6 email as well to make sure that they get that in prior to
7 settlement date.

8 Once that's done -- and my understanding is --
9 I know we've had two quarterly reviews. Kelly will take
10 the reviews, and I believe Roy actually reviews those
11 with her on a quarterly review; they check it and they
12 make sure, and they go back through all of the emails
13 that I -- I cc Kelly on all these sends and receives and
14 when I respond to those.

15 And when I get receipt of those from my clients
16 who say, Yes, I consent, or It's okay, or whatever the
17 case is, I forward that to Kelly, and then she runs those
18 off, and she'll go and make sure that the securities that
19 we did buy were indeed consented to prior to the actual
20 settlement date.

21 MS. HARRIS: Let's go ahead and take a short
22 break now. Let's go off the record; I think we're
23 winding down.

24 (A brief recess was taken.)

25 MS. HARRIS: Let's go back on the record.

1 Mr. Vaughan, we don't have any more questions
2 at this time, but I think your counsel has indicated he
3 may have a clarifying question, so I'll let him go ahead.

4 MR. WASHINGTON: Okay.

5 Okay. During the testimony, Mr. Vaughan, you
6 mentioned that Kelly Durham, your chief compliance
7 officer for Tri-Star Advisors, had picked up some
8 additional information about principal transactions
9 shortly after having some conversations on the
10 preliminary examination with the SEC staff about their
11 pending examination.

12 And you mentioned at that conference -- you
13 identified it as being an SEC conference. And I think it
14 was actually NSCP conference. Is that correct?

15 THE WITNESS: I don't know. It was a
16 compliance conference. I don't know what the label was.
17 I thought it was an SEC, but it was a compliance
18 conference, and that's when she came back when she
19 addressed that we may -- and Linda included -- may have
20 missed a principal trading component of the ownership
21 thing, and so that -- in her discussions there.

22 So if that's what it was, I'm not sure how to
23 clarify that for the record, but it was a compliance
24 conference of some sort related to principal
25 transactions, and that's where we kind of got the first

1 awareness that we might have an issue.

2 MR. WASHINGTON: Okay. Excellent.

3 BY MS. HARRIS:

4 Q But you're not sure who was the sponsor of that
5 conference.

6 A No, ma'am.

7 Q Because you didn't attend.

8 A No, ma'am.

9 MS. HARRIS: All right. Well, I think we are
10 done with our questions for today. Mr. Vaughan, we may,
11 however -- there's always a possibility we may call you
12 again to testify in this investigation. If that becomes
13 necessary, we'll be in touch with you through Mr.
14 Washington.

15 Mr. Vaughan, do you wish to clarify anything or
16 add anything to the statements you have made today?

17 THE WITNESS: I don't believe so. No.

18 MS. HARRIS: All right, then. Well, we are off
19 the record, then.

20 (Whereupon, at 2:48 p.m., the hearing was
21 concluded.)

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PROOFREADER'S CERTIFICATE

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In The Matter of: PARALLAX INVESTMENTS, LLC
Witness: Jon Carter Vaughan
File Number: FW-03686-A
Date: Wednesday, August 16, 2012
Location: Houston, TX

This is to certify that I, Donna S. Raya,
(the undersigned), do hereby swear and affirm that the
attached proceedings before the U.S. Securities and
Exchange Commission were held according to the record and
that this is the original, complete, true and accurate
transcript that has been compared to the reporting or
recording accomplished at the hearing.

(Proofreader's Name) (Date)

CERTIFICATE OF REPORTER

I, Leslie Berridge, hereby certify that the foregoing transcript consisting of 67 pages is a complete, true, and accurate transcript of the investigative hearing indicated, held on August 16, 2012, at Houston, Texas, in Parallax Investments, LLC. I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared by me or under my direction.

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Exhibit C

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of)
) File No. FW-03686-A
PARALLAX INVESTMENTS, INC.)

WITNESS: Kelly Durham
PAGES: 1 through 122
PLACE: Texas State Securities Board
1919 North Loop West, Ste. 300
Houston, Texas
DATE: Wednesday, August 15, 2012

The above-entitled matter came on for hearing,
pursuant to notice, at 1:00 p.m.

Diversified Reporting Services, Inc.
(202) 467-9200

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1 APPEARANCES:
2
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14 18115 Heaton Drive
15 Houston, Texas 77084
16 281-859-6774
17
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24
25

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PROCEEDINGS

1 MS. HARRIS: We are on the record at 1:00 p.m.
2
3 on August 15, 2012.
4 Please raise your right hand.
5 Whereupon,
6 KELLY DURHAM
7 was called as a witness and, having been first duly
8 sworn, was examined and testified as follows:
9 EXAMINATION
10 BY MS. HARRIS:
11 Q Do you understand that you will remain under
12 oath throughout these proceedings today?
13 A Yes.
14 Q Okay. Please state and spell your full name
15 for the record.
16 A Kelly Durham, K-E-L-L-Y D-U-R-H-A-M.
17 Q No middle name?
18 A No middle name.
19 Q Okay. I bet you get asked that a lot.
20 A Yes. Or it'll say Kelly NMI, mo middle
21 initial.
22 Q Okay. Well, we've obviously met prior to going
23 on record today, but for the record, I am Joann Harris,
24 and with me today is Barbara Gunn. We are both officers
25 of the United States Securities & Exchange Commission for

1 **function?**

2 A No.

3 Q Okay.

4 A I wish I did.

5 Q **Is there an outside consultant or outside firm**
6 **that --**

7 A Yes.

8 Q **-- you look to to assist you from time to time**
9 **in your compliance role?**

10 A The Advisor's Resource is our compliance
11 consultant.

12 Q **And how long have you used the Advisor's**
13 **Resource?**

14 A Since I started November of '09.

15 Q **Whose idea was it to get them involved?**

16 A I think it was Marcel's.

17 Q **Is there a particular person at the Advisor's**
18 **Resource that you've used consistently since November**
19 **2009?**

20 A It's a team, but Linda Shirkey is the owner of
21 the Advisor's Resource.

22 Q **I'm sorry. What was Linda's last name?**

23 A Shirkey, S-H-I-R-K-E-Y.

24 Q **Thank you.**

25 A I'm sorry. We were just talking about how we

1 A Okay. What happened was we got the call from
2 Fran and Kyle -- I got a call like a Friday afternoon,
3 letting me know I was going to get the -- the examination
4 letter was coming -- initial call.

5 And so as they were going through, they had a
6 couple questions, and we were going through the
7 questions, and Kyle said, Do you do principal trades?
8 And I said, No, we do riskless principal trades. And so
9 he kind of said, Okay, but you're on the broker --
10 investment advisor, blah, blah, blah. And he said, We'll
11 tag this and we'll follow up on this when we come out.

12 So I was kind of like, Okay, there's a question
13 here -- because I didn't know the answer -- this is
14 weird. So then I got to my NSCP conference that
15 following week --

16 BY MS. GUNN:

17 **Q Before we get to the conference --**

18 A Sure.

19 **Q -- I didn't understand the question that you**
20 **didn't know the answer to. What was the question?**

21 A Oh, when he asked about do we do principal
22 trades.

23 **Q Right.**

24 A And I said, We do riskless principal trades.
25 And so he kind of --

1 MR. WASHINGTON: Who are you speaking of there?

2 THE WITNESS: Kyle.

3 MR. WASHINGTON: I mean, which entity were you
4 speaking of that's doing these principal trades?

5 THE WITNESS: Oh, I was speaking of Tri-Star
6 Financial. Well, that was my perception of it, because
7 what I had learned at Tri-Star Financial was that we did
8 riskless principal trades, that because it came right
9 into the inventory and then was immediately out, that
10 they were never taking ownership of it, was my
11 understanding of it. So I gave that to Kyle as our -- we
12 do riskless principal.

13 So he's kind of like, Okay. And I -- we went
14 back and forth. I'm like, No, we don't; I don't
15 understand what you're talking about. So then he said,
16 We'll follow up on that when we come out there next week.

17 MS. GUNN: Okay.

18 THE WITNESS: Sorry.

19 BY MS. GUNN:

20 Q So then he asked -- inquired about an area, and
21 you didn't really understand the question.

22 A Correct.

23 Q And so you agreed that --

24 A We'll follow up on that when you come out here.
25 Yes.

1 BY MS. HARRIS:

2 Q So this was before they started their field
3 work, clearly.

4 A Correct. Yeah, initial phone call. So it was
5 kind of like, Okay, that's something I don't really
6 understand.

7 So then I went to the NSCP conference, and I
8 was in one of the classes, was in there, and they were
9 talking about doing kind of principal trades, where it's
10 coming in and how it was executing.

11 So I stick my hand up and said, Hey, we have
12 trades that come into our inventory, and they go straight
13 out to the customer, and they don't -- there's no stop in
14 between.

15 And this guy stands up and goes, Here's my
16 business card. You're in violation of 206(3)-T. And I'm
17 like, Holy crap -- or holy -- you know, whatever; I was
18 panicking at that moment.

19 MR. WASHINGTON: Words to that effect.

20 THE WITNESS: Yes. He gives me his business
21 card, and he's a lawyer, and he's like, You're going to
22 need my number.

23 So I take off from the seminar. I'm like, Holy
24 cow, they're going to be here in a week. And I start
25 blowing up the guys. I'm like, I don't know. He just

1 gave me his card. And then so that's kind of how I found
2 out about principal trading.

3 So then when the auditors came in, I went
4 straight in to them and said, Hey --

5 BY MS. HARRIS:

6 **Q By auditors you mean the examiners?**

7 A I'm sorry. Yes, the examiners. Yes. And I
8 said, Hey, I didn't understand this question, and then I
9 was at the seminar, and then they had brought it up to
10 Bob Falkenberg. They had started with Parallax for
11 the -- they started with Parallax in the examination.

12 So then I went right in and said, Hey, I
13 didn't -- this doesn't make any sense to me. I think we
14 have a problem. What do we do?

15 And so we had already started that weekend
16 going through all the text of 206(3); that's when we
17 called our Advisor's Resource and started going from
18 there.

19 **Q Okay. Did you or did the firm ultimately**
20 **engage this attorney that raised his hand at the**
21 **conference and gave you his business card?**

22 A No. We engaged Roy.

23 MR. WASHINGTON: You engaged Linda initially --

24 THE WITNESS: I mean -- that's what I meant.

25 Sorry.

1 **Q Old process or new process: Does Tri-Star**
2 **Financial trade these CMOs for its own account? You**
3 **know, not necessary for a client but just for itself?**

4 A No.

5 **Q Has it ever?**

6 A No. I just --

7 **Q Did you want to clarify something?**

8 A I just wanted to clarify that, too. I think
9 that there could be a little -- a chance that they traded
10 for their own account. I don't see it ever -- I'm not
11 saying this right.

12 MR. WASHINGTON: If it occurred, it was
13 minimal.

14 THE WITNESS: If it occurred, it was minimal.

15 MS. HARRIS: Okay.

16 BY MS. HARRIS:

17 **Q But it's not a regular course of business.**

18 A No. It'd be an exception or rarity.

19 **Q You mentioned the terminology riskless**
20 **principal trade. Can you elaborate a little bit on kind**
21 **of what that means to you?**

22 A That when they're going out to the street to
23 buy a bond, that bond's going to go into the 604
24 inventory. It's immediately allocated back out to the
25 customer, so in my understanding of it, it was that we

1 were never holding the position long enough to exercise
2 any risk, like it could move against us, move forward,
3 because it had already gone out to the customer.

4 **Q Okay. What do you understand the concept of an**
5 **agency trade and how does that differ from what you just**
6 **described?**

7 A Agency to -- let's see. Agency is when the
8 advisor is acting --

9 MR. WASHINGTON: No. Agency is -- there's a
10 difference between agency and principal transaction, is
11 what she's asking.

12 THE WITNESS: I'm trying to remember.

13 MS. HARRIS: Well, again, we want our witness
14 to answer, so if she has an understanding what agency
15 trade means --

16 THE WITNESS: Think about it. Let's see.

17 MR. WASHINGTON: But I think there's just --
18 that terminology piece was what I wanted to clarify.

19 MS. GUNN: I'm sorry. I'm having trouble
20 hearing you, so I think the transcript is too.

21 MR. WASHINGTON: I'm sorry. I just wanted to
22 clarify the terminology piece, because I think that
23 there's a kind of difference in the speak. There are
24 some internal business kind of lingo that they use to
25 explain some processes internally that don't capture the

1 MR. WASHINGTON: Just the brokerage clients.

2 BY MS. HARRIS:

3 Q These are just the brokerage client accounts,
4 not the advisory, TSA accounts.

5 A Correct.

6 Q When was this new procedure put in place,
7 approximately, using the allocation accounts?

8 A June or July, I think. Yeah. Around -- a
9 little after -- it says August, so right about the same
10 time.

11 Q And, again, kind of sticking with that same
12 ticket procedures page for fixed-income securities,
13 there's a box at the bottom called Market limits,
14 fixed-income securities. Do you see that?

15 A Yes.

16 Q Do you know where those percentages came from?

17 A Those were set by the board.

18 Q Okay. And is the board, again, Payne, Vaughan,
19 Bott, and Gaylord?

20 A Yes.

21 Q The board of Tri-Star Financial.

22 A Financial.

23 Q Now, were these new percentage limits or were
24 these just historical ones that are just --

25 A We had actually backed them down a little bit

1 Q It's on to say that "at least 95 percent of the
2 transactions have been riskless principal transactions
3 rather than market making."

4 Do you know where that 95 percent comes from?

5 A I think we just estimated, because really that
6 whole not-a-riskless-principal thing would be such a
7 random occurrence that we just sort of estimated it.
8 Yeah.

9 Q And then if you would turn to the second page
10 of this letter, it's Bates-stamped -2949.

11 A Uh-huh.

12 Q It's the second full paragraph that starts out,
13 "Most advisory clients at TSA" -- do you see that?

14 A Yes.

15 Q Going down about three sentences, toward the
16 middle, I'll read the statement -- I'll read the sentence
17 into the record, and I'll ask you a question.

18 It says, "Mr. Payne and I have been specific in
19 our discussions with clients and potential clients that
20 fixed-income securities placed in TSA client accounts
21 would continue to be obtained through TSF and would be
22 charged both an investment advisory fee through TSA and a
23 markup or markdown each transaction through TSF."

24 Do you see that sentence?

25 A Yes.

1 **Q** Okay. I realize that Mr. Vaughan is signing
2 **this letter, but I was just wondering if you had any**
3 **understanding of what is meant by "specific in**
4 **discussions with clients and potential clients"?**

5 A Well, most of our clients came from the
6 broker-dealer, so they were familiar with the way trades
7 were placed. When they're in there with a new potential
8 advisory client, they explained the fee; they explained
9 the markups; they explained that it's 1 percent -- or 1
10 point lower.

11 And the clients -- they -- it's a pretty -- it
12 comes up automatically; it's an easy conversation. It's
13 just kind of par for the course, I guess.

14 **Q** Okay. And how do you know that, that they --

15 A I've sat in, like to do the paperwork on some
16 of their initial client appointments and what-not, so
17 I've heard them do it.

18 **Q** Do you know -- go ahead.

19 A I would just say the clients usually bring it
20 up, and they're very accepting of it. They're like,
21 Okay, cool. They want management so that they don't have
22 to be involved in all the day to day of the account.

23 **Q** And when you say the client brings it up -- I
24 mean, can you give an example of how the client brings up
25 this issue?

1 A Like they'll go, Oh, what's the fee to be
2 managed? And then they'll say, Well, 1 percent. And
3 then, Well, do I still pay commissions to you or how do I
4 go? And then they'll explain the commission is lowered
5 by 1 point, unless we go and buy directly from a dealer.

6 **Q And when you say commission, that also means**
7 **the markup?**

8 A Correct. Yes. I'm sorry.

9 **Q So many terms.**

10 A Yes.

11 **Q Besides oral disclosures and conversations with**
12 **clients and potential clients, were there written**
13 **disclosures to the same effect that disclosed the same**
14 **information prior to the SEC exam?**

15 A We had thought that the disclosures made in our
16 ADV were sufficient, so we had attempted to make those
17 disclosures in the ADV, which everybody gets at that
18 initial meeting.

19 **Q Okay.**

20 A And also our trade confirmations all do
21 disclose the capacity the trade was processed in. So
22 that was what we thought was the time-of disclosure.

23 **Q And what does the trade confirmation have on**
24 **it?**

25 A The capacity that the trade was entered, the

1 gross, the net -- what else is on there? I think that's
2 it.

3 MR. WASHINGTON: There's a general -- but it
4 does say capacity; there's a code and then there's
5 explanatory information on the back.

6 THE WITNESS: And there's a number, then you go
7 on the back and it tells you --

8 MR. WASHINGTON: It explains that there's a
9 number 2, there's a cap; it just says cap, but then a
10 little asterisk or a little star thing there, and that
11 has a 2 in there, and that 2, when you go back to the
12 information side of it, it explains that that meant that
13 the TSF was acting in a principal capacity with respect
14 to -- it explains the capacity, all consistent with
15 10b-10 requirements on the broker-dealer side of things
16 on the confirmation piece.

17 BY MS. GUNN:

18 Q Now, when you say the gross and the net, gross
19 what?

20 A The gross -- how do I say this? Am I saying it
21 wrong? If you bought a bond for 25,000 and it was
22 factored down, it would be -- we'll say it was 24-. And
23 then your interest is going to add on, so the -- the
24 total of your net would be the original principal amount
25 plus your interest is your net.

1 **Q Okay. Is the markup disclosed?**

2 A No.

3 MR. WASHINGTON: On the confirmation we're
4 talking about now. Right?

5 MS. GUNN: Yes.

6 MR. WASHINGTON: But there's a spot on it where
7 it will ask -- it will identify commissions, and it will
8 say zero, zero-zero on the commission side and the
9 capacity in which they were acting was principal, and
10 then the amount will show the dollar value per unit, and
11 then it will show, you know, the total amount.

12 That dollar value per unit that's there will
13 include the markup.

14 MS. GUNN: Right. The dollar value includes
15 the markup; it does not include how much Tri-Star
16 Financial's got it for.

17 MR. WASHINGTON: It -- yes, it does not on the
18 10b-10. On the 10b-10 confirmation that's not there.

19 MS. GUNN: Okay.

20 THE WITNESS: Sorry. I think the gross amount
21 was the wrong word to use.

22 MR. WASHINGTON: Not a problem.

23 BY MS. HARRIS:

24 **Q So on the face of it, if I'm a client, I can't**
25 **calculate the markup that TSF receives on a particular**

1 trade by looking at the trade ticket or trade
2 confirmation.

3 A Right.

4 Q Going back to the Form ADV, do you remember
5 what the disclosures -- and, you know, we can probably go
6 get a copy; I'm sure you guys have a copy, but I just
7 don't have one with me today.

8 But I'm talking about the Form ADV prior to the
9 SEC examination. I know the ADV might have changed since
10 then. But were there any particular disclosures that you
11 remember that disclosed the relationship between Tri-Star
12 Advisors and Tri-Star Financial?

13 A Yeah. I'm pretty sure -- an old one wasn't in
14 here? Because it did say --

15 MR. WASHINGTON: That would have been the new
16 one; that would have been -- the changes to the ADV would
17 have been appended there.

18 THE WITNESS: Is it okay if I look in the stuff
19 that I brought?

20 MS. HARRIS: We can look at it at a break if
21 you want. I was just asking if you recalled off the top
22 of your head.

23 THE WITNESS: Yes. I do recall there being
24 something in there about the trades are processed through
25 Tri-Star Financial. If you don't want to do this, you

1 may get services at a better price elsewhere; just a very
2 general statement.

3 MR. WASHINGTON: Should have been a full kind
4 of disclosure about their potential conflict of interest
5 in a relationship --

6 THE WITNESS: Yes.

7 MR. WASHINGTON: -- but there wasn't a
8 principal transaction directly piece.

9 THE WITNESS: I think there was a part about
10 the owners of TSA are also owners of TSF, that kind of
11 thing.

12 MR. WASHINGTON: The different compensation
13 flows and --

14 BY MS. HARRIS:

15 Q And continuing on this same page of the letter
16 a little further down, there's a paragraph that talks
17 about the week prior to the SEC examination. Do you see
18 that bottom paragraph, very bottom paragraph?

19 A Yes.

20 Q Again, you actually note the National Society
21 of Compliance Professionals meeting that you attended.
22 Is that an organization that you're a member of?

23 A Yes.

24 Q Okay. How long have you been a member of that
25 group?

1 A Since 2010.

2 **Q Now, is this regional meeting -- is that**
3 **something that's done annually? Is it done quarterly?**

4 A It's an annual meeting, but they have many
5 other ones.

6 **Q And you the only person from Tri-Star Advisors**
7 **that attended that meeting?**

8 A Yes.

9 BY MS. GUNN:

10 **Q Where was it held?**

11 A Dallas.

12 BY MS. HARRIS:

13 **Q Did you retain any of your registration**
14 **materials or any certificate or attendance or**
15 **participation at that conference?**

16 A They gave us a whole binder of stuff, and I
17 have the receipts from it -- from that.

18 MR. WASHINGTON: They usually publish a list of
19 attendees as well. Do they still do that?

20 THE WITNESS: Oh, yeah. On the back -- it was
21 in the binder, too. Yeah. There's a list of --

22 MS. HARRIS: Well, if you've got something
23 that, you know, will sort of demonstrate or show us that
24 you actually did go and that type of thing --

25 THE WITNESS: Okay.

1 MS. HARRIS: -- that would be helpful for us.
2 So, Roy, if you could put that as a note of
3 something that we'll need to follow up on, that would be
4 great.

5 MR. WASHINGTON: Most definitely.

6 MS. HARRIS: Thank you.

7 MR. WASHINGTON: Still happen to have the
8 business card of that person?

9 THE WITNESS: I might.

10 BY MS. HARRIS:

11 Q Okay. Moving on to page -- the next page,
12 2950, there's a heading called Corrective Actions Already
13 Taken. Do you see that?

14 A Yes.

15 Q Okay. Let's kind of walk through these. I
16 think the first one -- you've already walked us through
17 the new --

18 A Consents.

19 Q -- consents and disclosure. That's right.
20 Those procedures.

21 And you note that the attachments A, B, C, and
22 D are copies of the required forms, and these forms are
23 currently in use.

24 A Yes.

25 Q This was as of -- this letter was as of

1 **November of 2011. Is the firm still using those forms?**

2 A Yes.

3 **Q Okay. Have you added or modified --**

4 A No.

5 **Q -- any forms? You note, Second, we have**
6 **recently amended and filed --**

7 MS. GUNN: Before we go to the second one --

8 MS. HARRIS: Sure.

9 BY MS. GUNN:

10 **Q In the discussion of the disclosure notice**
11 **documents, you indicate that -- or the firm indicates**
12 **that on occasion they take the consent verbally and that**
13 **it's documented. Who does that documentation?**

14 A The advisor will do the documentation, but we
15 have not had that -- that has not happened. That's a
16 worst-case scenario. I want it written.

17 MR. WASHINGTON: But a recognition of the rule
18 doesn't require the consent to be in writing, and that
19 email followup was to be documentation for the firm.

20 THE WITNESS: Right.

21 BY MS. GUNN:

22 **Q Well, and that's what I was trying to**
23 **understand, is what their documentation is and how they**
24 **do it, who reviews it and so on.**

25 A Correct. Even if they did get a verbal

1 more information on the post-execution. They're just
2 dealing with the best-case information available prior to
3 execution.

4 BY MS. HARRIS:

5 Q Let's go back to the letter, the very beginning
6 of this exhibit. And the Corrective Actions Already
7 Taken section, which is on page 2950, and basically what
8 we've done here is we've covered the second, third, and
9 fourth corrective action, which basically the reasons
10 listed here, which is to show revisions to prior
11 disclosure in some different places where the new
12 policies and procedures related to principal trading has
13 now been reflected.

14 So moving on to the next page 2951, at the very
15 top you -- the paragraph starts out, "Fifth" -- do you
16 see that?

17 A Yes.

18 Q -- "we reviewed the changes with all TSA
19 personnel to discuss the procedures both before and after
20 implementation to ensure that all steps and documents are
21 fully understood and are being implemented correctly and
22 that personnel are comfortable answering clients'
23 questions."

24 I might have asked you this already before, but
25 how are the procedures going so far as far as

1 **implementation?**

2 **Everyone following the procedures?**

3 A Yes. Everyone's following the procedures.
4 They're going fabulously. The transactions -- the
5 letters go out right after the trade -- the order is
6 taken in. They're all back with plenty of time. We've
7 only had one that did not consent in time, and we just
8 reallocated the trade and gave it to somebody else. So
9 it was perfect.

10 Q And you said one -- I guess only one incident
11 or one time that this process didn't work correctly.
12 Kind of tell us -- you went through that kind of quickly.

13 What did -- how did you find out that it wasn't
14 working correctly, and then what did you do afterward to
15 address it?

16 A Well, we had the trade settled, so we got to
17 settlement date, so usually the day before settlement I
18 go through and make sure I have all the consent letters,
19 and it happened to be one for one of Jon Vaughan's
20 clients.

21 He doesn't use email, and so he had mailed it,
22 and it was the crossing of the mail in between, which is
23 really hard with a couple of these old guys that refuse
24 to use email, and it just -- that did not get back in
25 time --

1 MR. WASHINGTON: These are funny old guys.

2 THE WITNESS: Sorry, Roy; sorry.

3 So it didn't get back in time, so then we ended
4 up doing another disclosure letter to someone who had
5 already consented and just added that trade on. Yes.

6 BY MS. HARRIS:

7 Q Okay. Is more Vaughan more receptive to email
8 after that incident occurred? Is he going to try to
9 start using it --

10 A Oh, the client? I doubt that the client will
11 use email. Yeah. So what we did is we will just mail
12 them out and extend the settlement date out for people
13 who use mail. It's impossible to get a letter back and
14 forth within a week.

15 Q Sorry. I was confused; I thought it was
16 Vaughan that didn't use email, but it sounds like it's
17 this old client --

18 A It's the client.

19 Q -- that doesn't use email.

20 A Yes.

21 Q Got it. Okay.

22 A Vaughan is an old guy, though.

23 Q I have seen some Vaughan emails.

24 A Yes.

25 Q Okay. And then the next paragraph goes on to

1 talk about, "And finally we have designed a testing
2 program to ensure on an ongoing basis that this change
3 continues to be in effect. For 2012 our CCO or an
4 outside consultant hired by the firm will monitor
5 compliance with these new procedures on a quarterly
6 basis."

7 Stopping there -- again, this letter was
8 written in 2011. What has actually happened in 2012 as
9 far as monitoring compliance?

10 A We've had to quarterly principal trading
11 reviews. I check all the trades, like I said, the day
12 before settlement, to make sure everything is done.

13 Q Every day -- or every trade.

14 A Well, every -- I have a calendar, and I then I
15 just put on my calendar when I have settlements to check
16 on such-and-such a date. Yes.

17 Q And who are these quarterly reviews performed
18 by?

19 A Roy Washington.

20 MR. WASHINGTON: Yours truly.

21 BY MS. HARRIS:

22 Q Okay. And does Mr. Washington issue a written
23 report?

24 A Yes.

25 Q Has that been produced to the SEC?

1 A No, but I have a copy if you would like one.

2 **Q Okay. I think we'd like to request copies of**
3 **those quarterly reviews.**

4 A Can I pull it out right now, or do we wait for
5 a break?

6 **Q We can do it at a break, but if you'll put it**
7 **on your list as something we'll ask for --**

8 MR. WASHINGTON: Yeah. I know in our
9 conversation I mentioned it to her and then suggested
10 that she have those copies.

11 BY MS. HARRIS:

12 **Q Besides the quarterly reviews performed by Mr.**
13 **Washington, has anybody else besides yourself performed**
14 **any other type of formal review that's been documented in**
15 **writing somehow?**

16 A Linda Shirkey had it in my last annual review.
17 We did my annual review a couple of weeks ago; I want to
18 say a month ago; did the annual review, and then that
19 reflected these principal trade reviews in that.

20 **Q Describe to me again what Linda Shirkey's**
21 **review -- is it of the firm or is it of you in**
22 **particular?**

23 A Of all of the compliance policies and
24 procedures of TSA, to make sure everything's been
25 followed and done.

1 MR. WASHINGTON: In compliance with the
2 206(47), just a requirement for an annual review.

3 BY MS. HARRIS:

4 Q And is Ms. Shirkey's report, review, is that
5 documented in writing?

6 A Yes.

7 Q Okay. Is that a document that's been produced
8 to the SEC?

9 A No, but it --

10 Q Okay. I'd like a copy of that.

11 A Sure.

12 Q Outside of the reviews by -- the quarterly
13 reviews by Mr. Washington and the annual review by Ms.
14 Shirkey, have there been any other reviews done on
15 compliance for TSA --

16 A No.

17 Q -- for 2012?

18 A No.

19 Q Sticking with this letter, under the section,
20 Clients Have Not Been Harmed, on the same page -2951, do
21 you see that section?

22 A Yes.

23 Q Three paragraphs down there is a paragraph that
24 starts out, "As part of our complete review" -- do you
25 see that?

CERTIFICATE OF REPORTER

I, Leslie Berridge, hereby certify that the foregoing transcript consisting of 120 pages is a complete, true, and accurate transcript of the investigative hearing indicated, held on August 15, 2012, at Houston, Texas, in Parallax Investments, LLC. I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared by me or under my direction.

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Exhibit 1

From: Roy Washington [REDACTED]
Sent: Friday, February 15, 2013 3:18 PM
To: R. Joann Harris
Cc: Kelly Durham
Subject: Your Requested Information
Attachments: TARI K TriStar 01.09.pdf; signed contract page.JPG

Hi Joann,

As we just briefly discussed on the phone, here is a copy of the original compliance consulting agreement between The Advisor's Resource, Inc. and Tri-Star Advisors. I have also included a copy of the execution page of this agreement dated February 4, 2009. As indicated in the agreement, both TSA's investment adviser regulatory registration effectiveness processing and the development of TSA's investment adviser compliance policies and procedures were the key focus areas of the compliance support services to be provided under this consulting agreement.

Hopefully, you will find this information responsive to your request. Please let me know if you have any questions on any of this information.

Best regards,

Roy V. Washington, Esq.

[REDACTED]

CONFIDENTIALITY NOTICE: This electronic message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and/or exempt from disclosure under applicable laws. If the reader of this message and/or its accompanying attachment(s) is not the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you receive this communication in error, please notify us by your e-mail reply feature, delete the original message and all copies thereof from your system, and destroy all hardcopies of the message and its accompanying attachment(s).



AGREEMENT FOR COMPLIANCE SERVICES

This AGREEMENT ("Agreement") made on January __, 2009, between:

TriStar Advisors, LLC

5718 Westheimer, Suite 950
Houston, Texas 77057
("Advisor")

And

The Advisor's Resource, Inc.

2617C West Holcombe Blvd. #522
Houston, Texas 77025 ("Consultant")

RECITALS

Advisor is engaged in or planning to engage in the business of

- financial planning
- investment management
- hedge fund management
- other

and has its principal place of business at the above address.

Advisor desires to engage the services of the Consultant, as an independent contractor and not as an employee, to assist in the project as defined in Terms and Services and to render services on the terms and conditions provided in this Agreement.

Consultant is a compliance consultant with a background in compliance, registration, marketing and administration of investment advisors registered with the United States Securities and Exchange Commission and/or state regulatory authorities responsible for the regulation of investment advisors. Consultant desires to render professional compliance consulting services for Advisor on the terms and conditions provided in this Agreement.

THEREFORE, Advisor engages the services of Consultant upon the terms and conditions set forth herein. In consideration of the mutual promises contained in this Agreement, the parties agree as follows:

I. SERVICES

Consultant will provide assistance as needed and/or as outlined below to Advisor:

- Annual maintenance service
- Registration with appropriate authorities
- Compliance "Check-up"
- Conduct on-site "Mock Exam"
- Set up compliance program for firm
- Prepare policies and procedures manual/Code of Ethics
- Assist in preparation for examination by regulators
- Assist in responding to deficiency letter from regulators
- Assist with business strategy issues
- Train or oversee staff using IARD system
- Ongoing compliance consulting and onsite visit
- Other:

II. USE OF AGENTS OR ASSISTANTS

Consultant is authorized to engage the services of Linda Shirkey, Jennifer Castillo, Robin Lanier, Monica Blanco, Jan Huff or other agents, assistants, persons or corporations that Consultant determines proper to aid or assist in the proper performance of duties. Ms. Shirkey's work on Client's behalf will be charged at the rate of \$200/hour. Ms. Castillo's work on Client's behalf will be charged at the rate of \$130/hour, and Ms. Lanier, Ms. Blanco and Ms. Huff's work will be charged at \$100/hour. Fees for other services will be agreed to at the time their services are engaged by The Advisor's Resource, Inc. Hourly rates for each of the above-mentioned persons are subject to change.

III. FACILITIES

Consultant will furnish all facilities and equipment that may be necessary to perform services required under this Agreement.

IV. FEES

- Hourly rate for consultant and assistant
- Fixed fee for project as outlined in proposal
- As Per Attached Proposal dated January 30, 2009
- Other:

Fees are due and payable immediately upon presentation of an invoice. Fees more than 30 days late will accrue interest at the rate of 1.5% per month. Client is responsible for all filing fees, including IARD filing fees.

The Advisor's Resource, Inc. will charge fixed fees for various services, including, but not limited to, manuals, compliance setup materials and Advisor/Client contracts. The Advisor's Resource, Inc. may change hourly rates with 30 days' written notice.

Emergency rates, in which Client requires Consultant to work with 24 hours' or less notice, on weekends or on market holidays, will be charged at twice the Consultant's or Assistant's hourly rate.

Travel time outside of Houston, Texas will be reimbursed at one-half of the hourly rate of the traveling personnel for a maximum of 4 hours per day.

V. EXPENSE REIMBURSEMENT

Expenses incurred by Consultant on Advisor's behalf, or directly as a result of work conducted for Advisor, will be charged to Advisor. Advisor agrees to pay delivery, parking, travel and associated moderate meal charges when Consultant must travel to see Advisor. All such expenses will be fully documented.

VI. DEVOTION OF TIME

Consultant will devote the time that is reasonably necessary for a satisfactory performance of her duties under this Agreement. If Advisor requires additional services not included under this Agreement, Consultant will make a reasonable effort to fit those additional services into her time schedule without decreasing the effectiveness of performance of duties required under this Agreement. However, the availability of additional services is subject to the provisions for additional fees for additional services as discussed in Section IV, above.

VII. CONFIDENTIALITY

Consultant agrees to keep confidential all matters concerning the working relationship with Advisor, the Advisor's business information and any information relating to Advisor's clients. Consultant will shred waste paper relating to Advisor. Advisor further acknowledges and agrees that any work produced by Consultant in the course of performing Consultant's duties under this Agreement is the work product of Consultant and that Advisor will not divulge, disclose or disseminate any such work product without the explicit written agreement to do so by the Consultant.

VIII. CLIENT'S RESPONSIBILITIES

Advisor agrees to provide Consultant with requested information promptly and completely. Advisor further agrees to promptly review all documents provided by The Advisor's Resource, Inc. and to indemnify Consultant for incorrect information provided by Advisor and submitted on filings. Advisor will respond in a timely manner to all proposed filing materials, policies or manuals prepared by Consultant. Advisor will make every effort to follow applicable securities laws and regulations. Advisor will make appropriate personnel available to Consultant to facilitate Consultant's work. Advisor will maintain copies of all documents filed on its behalf.

Advisor acknowledges fully that Advisor is ultimately responsible for any and all documentation filed on its behalf with any governmental entity, whether state, federal or otherwise. Advisor, by its execution hereof, indemnifies, defends and holds Consultant harmless from and against any claims, actions or demands that may result from any false, misleading or inaccurate information which is received from Client by Consultant.

Advisor further acknowledges that it will hold The Advisor's Resource, Inc. harmless for any of its actions in the performance of this Agreement except those acts which may be deemed gross negligence or intentional acts.

IX. TERMINATION

This Agreement may be terminated by either party immediately upon receipt of written notice by email, FAX or letter. Prepaid unearned fees will be refunded to Advisor upon termination of the Agreement, excluding out-of-pocket expenses and nonrefundable \$500 Consultant Engagement fee. Advisor agrees to remit Consultant for time expended to date of termination immediately upon receipt of an invoice. Consultant may terminate this Agreement if fees are not received within 45 days of mail date of invoices.

X. ALTERNATIVE DISPUTE RESOLUTION

All disputes that may arise between the parties regarding the interpretation or application of this contract and its legal effect must, to the exclusion of any court of law, first be mediated unless the parties can resolve the dispute by mutual agreement. In the event mediation becomes necessary, the parties will make good faith efforts to select a mutually agreeable mediator. In the event no such agreement on a mediator can be reached, the matter will be mediated through a panel of mediators, with each party choosing one mediator, then those two selected mediators shall choose the third mediator. In the event the parties cannot come to a resolution through mediation, then the matter in dispute shall be arbitrated by an arbitrator mutually agreed upon by the parties. In the event the parties cannot agree on an arbitrator, then each party shall select one arbitrator and those two selected arbitrators shall select a third arbitrator; and the matter in dispute shall be resolved by a panel of arbitrators so selected. Either party may submit any dispute to mediation thirty days after the other party has been notified as to the nature of the dispute. The procedures will be governed by the rules selected by the panel of arbitrators or mediators or the sole mediator or arbitrator. The proceedings will be governed by the statutes of the State of Texas, and the proceeding will be held in the city in that state where Consultant's principal office is located. Any such arbitration decision shall be binding on the parties. The sole arbitrator or panel of arbitrators, if any, may award the winning party necessary costs of mediation and/or arbitration, including but not limited to, reasonable attorney's fees.

XI. WAIVER OF RIGHT

The failure of either party to enforce any provisions of this Agreement shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel compliance with any other provision in this Agreement.

XII. ENTIRE AGREEMENT

This Agreement constitutes the sole and only agreement of the parties and supersedes any prior understanding or written or oral agreements between the parties respecting this subject matter.

The parties acknowledge that the following items, and the terms stated therein, are incorporated into this Agreement and are made a part hereof for all purposes:

Item No. 1: Proposal Dated January 30, 2009

XIII. ASSIGNMENT

Neither this Agreement nor any duties or obligations may be assigned by Consultant without the prior written consent of Advisor, which written consent shall not be unreasonably withheld. In the event of an assignment by a party to which the other has consented, the assignee or the assignee's legal representative must agree in writing with the non-assigning party to assume, perform and be bound by all provisions of this Agreement.

XIV. SUCCESSOR AND ASSIGNS

Subject to the provisions regarding assignment, this Agreement is binding on and inures to the benefit of the parties to it and their respective heirs, executors, administrators, legal representatives, successors and assigns.

XV. GOVERNING LAW

This Agreement and the rights and duties of the parties under it are governed by the laws of the State of Texas, without giving effect to any rules governing the conflict of laws.

XVI. AMENDMENT

This Agreement may be amended by the mutual agreement of the parties to it, in writing to be attached to and incorporated in this Agreement.

XVII. LEGAL CONSTRUCTION

In the event that any one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, that invalidity, illegality or unenforceability will not affect any other provisions, and the Agreement will be construed as if the invalid, illegal or unenforceable provision had never been contained in it.

Executed at Houston, Texas, on _____.[date].

Client: TriStar Advisors, LLC

By: _____
William Payne

Consultant: The Advisor's Resource, Inc.

By: _____
Linda Shirkey

Executed at Houston, Texas, on February 4 2009. [date].

Client: TriStar Advisors, LLC

By: William Payne
William Payne

Consultant: The Advisor's Resource, Inc.

By: Linda Shirkey
Linda Shirkey

Exhibit 2

From: Roy Washington [REDACTED]
Sent: Tuesday, May 14, 2013 4:05 PM
To: Harris, R. Joann
Subject: Re: TSA: Information Requested
Attachments: Re_ Save the dates!! CCO Inreach with the SEC 1.eml; SEC Inreach meeting tomorrow 7-18-2012.eml

Hi Joan,

The principals of Tri-Star Advisor's were referred to The Advisor's Resource (and its founder, Ms. Linda Shirkey) by a person with whom they've had a long standing business and personal relationship. This person was (and currently is) also registered as an investment adviser.

As part of its due diligence, TSA reviewed the information provided directly by The Advisors Resource personnel during the in person and telephone meetings that took place. The firm also reviewed the information provided on the Advisor's Resource website. The Advisor's Resource, originally established in 1994 as Shirkey Consulting, did and does have its own website. The following link will take you to their current website.
<http://www.theadvisorsresource.com/our-team.html>

There was also additional information available about Ms. Shirkey and the Advisor's Resource on the internet. I've attached a link to a 2007 Morning Star Advisor article in which David J. Drucker quotes Ms. Shirkey on the importance of investment adviser risk assessments. This article, which was written more than a year before TSA contracted with The Advisor's Resource, is an example of the information regarding the Advisor's Resource that was publically available when TSA was making its investment adviser compliance consultant decision. However, it should be noted that TSA personnel do not specifically recall having reviewed this article as part of their decision to hire The Advisor's Resource in February of 2009.
<http://www.morningstar.com/advisor/t/42987837/i-m-from-the-sec-and-i-m-here-to-help.htm>

You also asked me to provide you with some information regarding The Advisor's Resource and its involvement in the Fort Worth Regional Chief Compliance Officer Inreach Programs. That information is included in the two attachments to this email. The first attachment entitled "save the dates" identifies the dates and subject matter for each of the three CCO Inreach meetings scheduled in 2012. The second attachment entitled "SEC Inreach meeting tomorrow" covers the Inreach meeting in which Ms. Shirkey served as moderator and in which Mr. Marshall Gandy (Associate Director for Examinations) for your office participated and asked Ms. Shirkey several direct adviser compliance questions. Please let me know if you have any trouble opening the attachments.

You have also asked me to provide some information in bullet point format regarding Ms. Shirkey's National Society of Compliance Professionals (NSCP) meeting involvement as a presenter or moderator. That information for years 2011, 2012 and 2013 is listed below (please note that "IA" means Investment Adviser; "HF" means Hedge Fund; and "PF" means Private Fund):

1. **10/2011 NSCP Meeting (Two Sessions)** <http://nscpmeetings.com/2011/meeting-nat.html>

I(c) HF/PF Intro To Compliance (Part I) — Getting Registered

- Who needs to register
- What registration entails: decisions to make, the registration process
- Major changes for employees of currently operating entities
- Timeline for registration

Dianne Mattioli, EIM Management (USA) Inc.

Linda A. Shirkey, The Advisor's Resource

II(e) HF/PF (Part II) — You're Registered - Now What?

- Key components of a compliance program: requirements vs. best practices
- Challenges for currently operating entities
- Looking through the risk lens
- Roadmap for developing a program: procedures, testing, preparing for an exam
- Keeping current with changes: internal and external

Dianne Mattioli, EIM Management (USA) Inc.

Linda A. Shirkey, The Advisor's Resource

2. 10/2012 NSCP Meeting (One Sessions) <http://nscpmaterials.omnibooksonline.com/2012/data/mobile-toc.php>

III(h) IA Lab: Advertising

Linda Shirkey, The Advisor's Resource

Deborah A. Lamb McKinley Capital Management, LLC,

Robert Hille, Laird Norton Tyee

3. 3/2013 NSCP Meeting (One Sessions) <https://www.etches.com/ehome/NSCP-Atlanta13/99221/>

IV(b) IA/PF/HF - Identifying Conflicts of Interest

- Steps to take to identify, document, disclose and manage conflicts
- How strategic relationships, certain investors, expert networks and business activities create potential c
- When, where and how to disclose conflicts
- How to train employees about conflicts of interest
- How to ensure consistency across all disclosure documents

Linda Shirkey, The Advisor's Resource

Morgan Whatley, Caymus Capital Partners, LP

Elizabeth Scalf, Heartland Advisors, Inc.


As we discussed briefly during our phone call today, Ms. Shirkey has also provided IA consulting services to the Texas State Securities Board. Her most recent efforts in that regard were tied to the investment adviser switch between the SEC and State registration necessitated by the Dodd Frank Wall Street Reform and Consumer Protection Act and changes in prior registration exemptions. Ms. Shirkey also made a presentation to the North American Securities Administrator Association ("NASAA") in conjunction with her consulting services with the Texas State Securities Board (a member of NASAA).

I hope you find this information responsive to your requests. If you'd like additional information on any of the items identified above or any items that I may have missed in this email please let me know. I didn't want to hold-up getting this response to you. But, I'd certainly be happy to get whatever information you need to you.

Best regards,

Roy V. Washington, Esq.

Attorney-at-Law



CONFIDENTIALITY NOTICE: This electronic message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and/or exempt from disclosure under applicable laws. If the reader of this message and/or its accompanying attachment(s) is not the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you receive this communication in error, please notify us by your e-mail reply feature, delete the original message and all copies thereof from your system, and destroy all hardcopies of the message and its accompanying attachment(s).

From: Harris, R. Joann
Sent: Monday, May 13, 2013 1:51 PM
To: roywashington@sbcglobal.net
Subject: TSA: Information Requested

Roy,
Can you remind how TSA came to hire The Advisor's Resource in 2009? I know you mentioned a CCO Outreach program. I'd like some more details about this if you can provide them. Thanks.
Joann

R. Joann Harris
Assistant Regional Director
U.S. Securities and Exchange Commission
Division of Enforcement
Fort Worth Regional Office
801 Cherry Street, Suite 1900
Fort Worth, TX 76102
817-978-6437 (phone)
817-978-2809 (fax)

Exhibit 3



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
FORT WORTH REGIONAL OFFICE
801 CHERRY STREET UNIT 18
FORT WORTH TX 76102

IN REPLYING, PLEASE
QUOTE

Initial
Information
Request

March 23, 2011

DELIVERY VIA EMAIL

Ms. Kelly Durham
Chief Compliance Officer
Tri-Star Advisors, Inc.
5718 Westheimer Suite 950
Houston TX 77057

Re: Examination of **Tri-Star Advisors, Inc.** ("Adviser")

Dear Ms Durham:

The staff of the U.S. Securities and Exchange Commission is conducting an examination of the Adviser pursuant to Section 204 of the Investment Advisers Act of 1940 (the "Advisers Act"). The purpose of the examination is to assess the Adviser's compliance with provisions of the Advisers Act and the rules thereunder.

Additional information about compliance examinations and the examination process is included in the enclosed "*Examination Information*" brochure (SEC Form 2389). Also enclosed is information regarding the Commission's authority to obtain the information requested and additional information: "*Supplemental Information for Regulated Entities Directed to Supply Information Other Than Pursuant to a Commission Subpoena*" (SEC Form 1661).

Information is Requested

Please provide all of the information specified in the enclosed information request list. Some of the information is to be provided to the staff by mail in advance of the staff's on-site examination, and the remainder of the items should be provided to the staff on the first day of the on-site examination. The staff requests that certain items be provided in an electronic format to the extent possible. Additional information about the desired electronic format is included in the document request list.

If the Adviser becomes aware of the need for delay in the production of any requested information that extends beyond the first day of the on-site examination, the Adviser should immediately contact the undersigned at the telephone number indicated. During the examination, the staff may also request additional or follow-up information, and will discuss timeframes for the Adviser to produce this information.

The On-Site Phase of Examination

The on-site phase of the examination will begin on **April 12, 2011 at 9:30 a.m.** The staff appreciates the Adviser's cooperation in facilitating the examination process.

We request that you make adequate office facilities available to the staff during the on-site examination, to ensure the confidentiality and efficiency of the examination. After arriving on-site, the staff would like to speak with at least one member of senior management to obtain an overall view of the Adviser's organization, business, compliance program, and compliance culture. Early in the on-site portion of the examination, the staff would also like to discuss the Adviser's overall compliance program as well as specific policies and procedures with the Adviser's Chief Compliance Officer(s). Also during the on-site portion of the examination, in order to understand fully the Adviser's operations and compliance controls in these areas, the staff will want to interview persons responsible for functions such as risk management, portfolio management, trade execution, research, back office/administration, information technology, anti-money laundering and marketing.

Background Regarding the Information Requested

Each investment adviser and investment company that is registered with the Commission is required to adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws, and to review those policies and procedures annually for their continued adequacy and the effectiveness of their implementation. In addition, registered advisers and funds are required to designate a chief compliance officer responsible for administering the policies and procedures. Each adviser should adopt policies and procedures that take into consideration the nature of that firm's operations. The policies and procedures should be designed to prevent violations from occurring, detect violations that have occurred, and correct promptly any violations that have occurred.

The initial phase of a routine examination generally includes a review of the firm's business and investment activities and its corresponding compliance policies and procedures. The examination staff will request information and documents and speak with the firm's employees to ensure an understanding of the firm's business and investment activities and the operation of its compliance program. Using the information obtained, the staff will assess whether the firm's policies and procedures appear to effectively address the firm's compliance risks. The initial phase of a routine examination also includes testing of the firm's compliance program in particular areas. The information requested and the purpose for requesting the information is described below.

- Certain general information is requested, such as the firm's organizational charts, demographic and other data for advisory clients, including privately offered funds, and a record of all trades placed for its clients/funds (trade blotter) -- to provide an understanding of the firm's business and its investment activities.

- Information about the firm's compliance risks is requested, and the written policies and procedures that the firm has established and implemented to address those risks -- to provide an understanding of the firm's compliance risks and its corresponding controls. This information would include, for example, any inventory performed of the firm's compliance risks and its compliance manual or policies and procedures.
- Documents relating to the firm's compliance testing is requested -- to provide an understanding of how effectively a firm has implemented its compliance policies and procedures. This information would include, for example, the results of any compliance reviews, quality control analyses, surveillance, and/or forensic or transactional tests performed by the firm.
- Information regarding actions taken as a result of compliance testing is requested -- to provide an understanding of steps taken by the firm to address the results of any compliance reviews, quality control analyses, surveillance, and/or forensic or transactional tests performed by the firm. This information would include, for example, any warnings to or disciplinary action of employees, changes in policies or procedures, redress to affected clients, or other measures.
- Other information is requested -- to allow the staff to perform testing for compliance in various areas.

As part of the pre-examination planning process, the staff actively coordinates examination oversight to ensure that regulatory efforts are not duplicative. If you have any concerns in this regard, please contact the undersigned.

Your cooperation is greatly appreciated in the examination process. If you have any questions, please contact Fran From, at (817) 900-2611.

Sincerely,

Frances M From, CFE, CPA
Staff Accountant

Enclosures:

Information Request List
Examination Information Brochure (Form 2389)
Supplemental Information (Form 1661)
Exhibit 1: Layout for Securities Trading Blotter/Purchase and Sales Journal

Exhibit 4



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
FORT WORTH REGIONAL OFFICE
19TH FLOOR
801 CHERRY STREET
FORT WORTH, TEXAS 76102

August 31, 2011

Mr. Jon Vaughn
President
Tri-Star Advisors, Inc.
5718 Westheimer, Suite 950
Houston, TX 77057

Re: Examination of Tri-Star Advisors, Inc.
SEC File No. 801-70769

Dear Mr. Vaughn:

The staff conducted an examination of Tri-Star Advisors, Inc. ("Registrant") starting on April 18, 2011, and ending on April 22, 2011. The examination evaluated compliance with certain provisions of the federal securities laws. The examination identified the deficiencies and weaknesses that are described in the attached Examination Findings, and which were discussed with you during an exit interview on April 21, 2011.

The staff is bringing these deficiencies and weaknesses to your attention for immediate corrective action, without regard to any other action(s) that may result from the examination. The deficiencies in the Examination Findings are based on the staff's examination and are not findings or conclusions of the Commission. You should not assume that the firm's activities discussed in the Examination Findings do not constitute deficiencies or weaknesses under any other federal securities law or other applicable rules and regulations not discussed above or that the firm's activities not discussed in the Examination Findings are in full compliance with federal securities laws or other applicable rules and regulations.

Note that the descriptions of the law and related interpretations in the Examination Findings may be paraphrased or abbreviated. Go to our website at <http://www.sec.gov/divisions.shtml> for complete information related to these regulatory requirements.

Please respond in writing to each of the matters described in the Examination Findings within thirty days of the date of this letter, describing the steps you have taken or intend to take with respect to each of these matters. Please respond directly to this office as follows:


Karyn Mysliwicz, Branch Chief
U. S. Securities and Exchange Commission
Fort Worth Regional Office
801 Cherry Street, 19th Floor
Fort Worth, TX 76102

In addition, a copy of your reply, together with copies of any enclosures, should be sent to the following person(s):

John Sweeney
U.S. Securities and Exchange Commission
Office of Compliance Inspections and Examinations
100 F Street, NE
Mail Stop 7030
Washington, DC 20549

Thank you for your cooperation. If you have any questions, please contact me at (817) 900-2611 or Karyn Mysliwicz at (817) 900-2637.

Sincerely,
Donna C. Esau
Assistant Regional Director
Examinations

By: 
Frances From
Staff Accountant

Attachment: Examination Findings

EXAMINATION FINDINGS
Tri-Star Advisors, Inc.
(SEC File No. 801-70769)

I. Principal Trading – Section 206(3)

Investment Advisers Act of 1940 (“Advisers Act”) Section 206(3) prohibits an investment adviser from “acting as principal for his own account, knowingly to sell any security or to purchase any security from a client ... without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction.” Furthermore, the notification and consent requirements set forth in Section 206(3) also must be complied with when an affiliated broker-dealer under common control with the investment adviser engages in principal trades with the advisory client.

Registrant engaged in numerous principal trades with clients effected through its affiliated broker-dealer, Tri-Star Financial AKA Mutual Money Investments, Inc. Trades were processed in this manner routinely in violation of Section 206(3). Registrant’s affiliated broker-dealer earned approximately \$1.2 million in sales credits on principal trades during the examination period. Registrant’s conduct is not consistent with the requirements of Section 206(3).

II. Compliance Policies and Procedures – Rule 206(4)-7

Rule 206(4)-7 under the Advisers Act requires advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act. Each adviser should identify conflicts and other compliance factors creating risk exposure for the firm and its clients in light of the firm’s particular operations, and then design policies and procedures that address those risks.

Registrant has adopted a compliance manual (“Manual”); however, the Manual contains procedures for areas that are not applicable to Registrant’s operations and the manual does not contain other needed procedures. For example, the Manual included procedures for allocation of block trades but does not include provisions for post-trade review of the allocation. In addition, procedures are included that describe best execution but do not include provisions for review over a period of time. In addition, Registrant does not have procedures addressing principal trading. Registrant’s Manual is not reasonably designed to prevent violations of the Advisers Act.

III. Code of Ethics – Rule 204A-1

Rule 204A-1 under the Advisers Act requires registered investment advisers to establish, maintain and enforce a written code of ethics containing policies and procedures relating to, among other things, personal securities transactions.

While Registrant has adopted a code of ethics (“Code”), the examination found Registrant’s access persons had not submitted annual acknowledgements as required. In addition, Registrant needs to expand the list of persons considered access persons as most employees have access to trading information. Registrant’s conduct is inconsistent with the requirements of Rule 204A-1.

EXAMINATION FINDINGS
Tri-Star Advisors, Inc.
(SEC File No. 801-70769)

IV. Best Execution - Section 206

Section 206, the anti-fraud provision of the Advisers Act, imposes a fiduciary duty on investment advisers. As such, an adviser has an obligation to act in the best interest of its clients and to place their interests before its own. The Commission has indicated that among the specific obligations that flow from an adviser's fiduciary duty is the requirement to obtain the best price and execution of client securities transactions where the adviser is in a position to direct brokerage transactions.

Registrant conducts a trade by trade review of quality of execution but does not review for quality of execution over time or a broad cross section of trades. Registrant's failure to conduct these types of reviews is not consistent with its fiduciary duty.

Exhibit 5



November 29, 2011

Karen Mysliwicz, Branch Chief
US Securities and Exchange Commission
Fort Worth Regional Office
801 Cherry Street, 19th Floor
Fort Worth, TX 76102

Re: Examination of Tri-Star Advisors Inc.
SEC File No. 801-70769

Dear Ms. Mysliwicz:

We are responding to your letter of August 31, 2011, regarding the above examination. For your convenience, we are responding to the items in the order in which they are addressed in your letter. Your language (in pertinent part) is shown in *italics*.

I. Principal Trading – Section 206(3)

Registrant engaged in numerous principal trades with clients effected through its affiliated broker/dealer, Tri-Star Financial AKA Mutual Money Investments, Inc. Trades were processed in this manner routinely in violation of Section 206(3).

Our Investment Advisor History

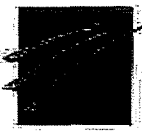
Tri-Star Advisors Inc. ("TSA") was created in response to 1) our concerns regarding the developments affecting the fee-based brokerage account industry as a result of the U.S. Circuit Court of Appeals (D.C.) vacating the rule under the Investment Advisers Act of 1940 ("the Act") that had previously exempted certain broker/dealers offering fee-based accounts from registration under the Advisers Act; and 2) identified client needs in the area of investment discretionary services. Prior to that time period, principals of what would later become TSA were primarily engaged in the broker/dealer business through Tri-Star Financial, Inc. as described in more detail below.

Tri-Star Financial, AKA Mutual Money Investments, Inc. ("TSF") was established as a registered broker/dealer by Bill Payne in 1993 as a fully disclosed introducing broker/dealer which cleared through Southwest Securities, Inc. TSF was established to build a company under local management with an expertise in trading to provide clients with access to mortgage-backed securities. Later John Bott and I joined the firm as principals.

While TSF (when acting as a dealer) has engaged in principal transactions involving markups and markdowns for its brokerage account clients, the firm has done so almost exclusively on a riskless principal basis. TSF has obtained bonds in its account in order to provide appropriate investment vehicles for its clients. Rarely, if ever, has TSF traded solely for its own account. Our financials indicate that proprietary trading is not a focus of the firm's operation. We estimate that at least 95% of the transactions enacted by the firm in its history have been riskless principal transactions rather than market making.

As time went on, it became clear to clients that TSF was providing access to attractive securities which were not readily available on a retail level through the wire houses. This investment niche (CMOs, or

TRI-STAR ADVISORS



collateralized mortgage obligations) became more complicated and less available and required substantial research in order to understand the underlying risks and to source these difficult-to-find securities at a good price. Certain clients wanted their advisors to be able to take discretion, placing trades in client accounts without receiving a particular order from a client, as some clients travel extensively and did not want to miss investment opportunities. (Securities which are attractive in this niche take considerable time to source and are generally not available for long.) TSF does not allow its registered representatives to exercise investment discretion.

In its 18-year history of operations, TSF has not experienced much client turnover, regulatory and/or client concerns or complaints. In keeping with the firm's high regard for regulatory compliance and fair dealings in general, the few such concerns that have arisen have all been properly, effectively and expeditiously addressed by senior management of the firm. Mr. Payne and I launched Tri-Star Advisors ("TSA" or the "Firm"), a separate registered investment advisory corporation, in 2009 in order to meet this identified client need and to offer discretionary investment advice on an ongoing fee basis in a manner consistent with the existing and evolving regulatory environment.

Most advisory clients of TSA were existing TSF clients that had been serviced by the now principals of TSA when they were acting in their capacities as registered representatives. The appeal to TSA for these clients has continued to be the principals' proprietary ability to source specialized fixed income securities, the clients' personal investment relationship, knowledge and experience with the principals of the firm initially gained through TSA's affiliated broker/dealer. Mr. Payne and I have been specific in our discussions with clients and potential clients that fixed income securities placed in TSA client accounts would continue to be obtained through TSF and would be charged both an investment advisory fee (through TSA) and a markup or markdown on each transaction (through TSF). However, at no time in its history has TSA (as a separate investment advisory entity) ever traded for or maintained its own proprietary investment account. For these reasons and others we believed our clients' understanding and our written and spoken disclosures to our advisory clients were thorough, appropriate and accurate based on our understanding of applicable regulatory requirements.

Compliance has clearly been a priority for TSA since its inception. The Firm's designated CCO is competent and knowledgeable regarding the Act and has attended various training programs, and the Firm has retained a reputable compliance consultant from the beginning of its operations. The Firm fully disclosed its relationship with TSF and the conflicts of interest therein to all clients from the beginning. It was never the intent of the Firm to fail to meet any regulatory requirements. While the principals of TSA were aware of the federal laws, regulations, rules and SRO requirements applicable to broker/dealers engaged in principal ("dealer") transactions relating to client trading in brokerage accounts, we fully believed that TSA was not engaged in principal transactions regarding our advisory clients. This belief was based on the fact that TSA has never owned a proprietary trading account as a separate legal entity.

In the week prior to our SEC examination, we recognized that we should reconsider the principal trading requirements in light of our operation. (Our CCO attended a regional National Society of Compliance Professionals meeting on April 11, 2011, where principal trading through an affiliated broker-dealer was discussed.) The following week, at the initial meeting with the SEC examiners, we volunteered that we had only recently learned that our affiliation with TSF might require additional compliance procedures. We turned to the examiners for assistance in determining if we would need to change our current processes. We voluntarily raised this issue with the examiners at the onset of the examination in an effort to be forthcoming and to demonstrate our intent to follow all requirements. We also expressed



our concern and desire to repair any possible unintentional oversight. To this end, we appreciate having been granted an extension to the deadline for filing this response letter in order for us to fully implement corrective policies, procedures and disclosures.

TSA had only been registered for less than two years at the time of this examination. This was our first examination, and we viewed it as an opportunity to educate ourselves as to any additional requirements and to strengthen our program as appropriate. We clearly knew and have followed the major rules: we have (i) had a competent, onsite and knowledgeable Chief Compliance Officer ("CCO") on staff, (ii) created and followed customized policies and procedures, (iii) created written annual reviews, (iv) filed our amendments as required and (v) created a plain English Form ADV which fully discloses our relationship to TSF. Our prior understanding of the somewhat esoteric principal transaction requirements was in terms of proprietary trades of TSA. We believed we were following the requirements with our extensive and timely disclosures. We made no effort to conceal the conflict or the common control of TSA and TSF resulting from Mr. Payne's controlling ownership interest in these firms.

Corrective Actions Already Taken

We obviously want to follow and be in compliance with the applicable regulatory requirements regarding principal transactions. In furtherance of that goal, we have already implemented the following policies and procedures regarding TSA's principal transactions.

First, we have developed, implemented and are currently using new written disclosure notice documents (both pre- and post-execution) which are being delivered to advisory clients on a transaction-by-transaction basis for each principal transaction being considered for execution, or that has been executed, on behalf of any of our advisory client accounts. Additionally, we are also obtaining each client's consent authorizing us to proceed with the transaction before the settlement date of each such principal transaction. Our adopted and implemented principal transaction procedures allow the Firm to deliver the required written disclosure notice in hard copy (postal delivery) or in electronic email format for those advisory clients that have completed our email disclosure and consent forms. Our procedures also permit us to accept advisory client consent to such transactions either verbally, by email or by other written form. When client consent is obtained verbally, our procedures require written documentation of the manner and date of the received client consent. Our written disclosure notice documents also advise our clients that absent their consent (which can be withheld at any time) they will not participate in a particular principal transaction. Please see Attachments A, B, C and D which are copies of the required forms. These forms are currently in use.

Second, we have recently amended and filed onto the IARD system our amended Forms ADV Parts 1 and 2A to accurately reflect and disclose the Firm's principal transactions business practices and operations. Please see Attachments E and F for copies of the revised disclosure documents.

Third, we have reviewed and amended our Policies and Procedures Manual to accurately reflect this practice and to outline our required procedures. Please see Attachment G for the revised sections of the manual. Please see the section titled Trading for the revised section on principal trades. These practices have been fully implemented.

Fourth, we have amended our advisory client agreement to more accurately reflect the Firm's principal transactions policies and procedures. Please see Attachment H for the revised version.



Fifth, we have reviewed the changes with all TSA personnel to discuss the procedures both before and after initial implementation to ensure that all steps and documents are fully understood and are being implemented correctly, and that personnel are comfortable answering clients' questions. There have been no questions or concerns expressed by our advisory clients since implementation. Please see Attachment I documenting the subject matter of our personnel training sessions and the attendance of employees participating in the training session(s).

And finally, we have designed a testing program to ensure on an ongoing basis that this change continues to be in effect. For 2012, our CCO (or an outside consultant hired by the Firm) will monitor compliance with these new procedures on a quarterly basis. The monitoring will culminate in a written report of the review findings which will be given directly to the Firm's senior management. Based on the written report, senior management will oversee remedial actions deemed appropriate. For 2013, the CCO (or outside consultant) will monitor compliance with the Firm's principal transactions procedures on a semi-annual basis providing a written report of the review findings to senior management for any corrective actions. In all subsequent years, the CCO or outside consultant will conduct this review on an annual basis, reporting the findings to senior management.

Clients Have Not Been Harmed

We now certainly understand and agree with the need for the required disclosures when an investment advisor trades through its affiliated broker/dealer on a riskless principal transaction basis.

As the examiners saw during their examination of our books and records, as well as through interviews, TSA experienced no client complaints and lost no clients during the examination period. Performance of client accounts on a composite basis (including all TSA client accounts for which third party performance figures exist over the full examination period, giving each account equal weight regardless of dollar value) during 2010 was 10.71% net of fees (and markups) and was 1.51% for the first quarter of 2011. In comparison, the performance of Barclay's MBS Index, comprised of mortgage-backed securities (the closest index to our strategy) was 5.23% for 2010 and 0.60% for the first quarter of 2011. We believe these performance comparisons clearly indicate that the execution costs associated with the principal transactions effected on behalf of our clients during the review period had no negative impact on client account performance.

As part of our complete review after receipt of your letter, we have also calculated the markups to clients during the examination period. We believe the sales credit number in your letter is materially overstated and may reflect the inclusion of cancelled/rebilled transactions, resulting in counting some markups twice, as well as the inclusion of transactions conducted for TSF clients prior to their entering an advisory relationship with TSA.

For all the reasons stated above, we believe we currently are in compliance with the requirements of Section 206(3) and will continue to be in the future.

II. **Compliance Policies and Procedures – Rule 206(4)-7**

The manual contains procedures for areas that are not applicable to Registrant's operations and the manual does not contain other needed procedures....



As a result of your letter, we have conducted a full review of all of our documents, practices and written procedures. As a result, we have revised our policies and procedures manual to more completely reflect our current practices. We have attached the revised manual sections as Exhibit G.

III. Code of Ethics

Registrant's access persons had not submitted annual acknowledgements [of the Code of Ethics] as required.

During the examination, we provided the examiners with all employee acknowledgements of the 2010 Tri-Star Financial Code of Ethics (please see Attachment J) and the 2011 employee acknowledgements for Tri-Star Advisors Code of Ethics (see Attachment K). Since the receipt of the deficiency letter, we have located the 2010 Tri-Star Advisors employee acknowledgements for the Code of Ethics. These documents had been misfiled by a compliance associate who had been ill during late 2009 and early 2010 and were only recently located. Please see Attachment L.

IV. Best Execution – Section 206

Registrant...does not review for quality of execution over time or a broad cross section of trades.

Please see the revised procedures for monitoring best execution in the revised Trading section of the Policies and Procedures Manual, Attachment G.

We appreciate your comments and the courtesy granted us by the examiners. We hope that you find this letter and the attachments responsive to all of the concerns raised in your letter. We also hope that our response clearly demonstrates our commitment to meeting all applicable regulatory requirements and acting in the best interests of our advisory clients. Please contact us with any questions or comments.

Sincerely yours,

Jon C. Vaughan, President

Attachments:

- A. Client Principal Transaction Disclosure and Consent Form (Pre-execution)
- B. Client Principal Transaction Disclosure and Consent Form (Post-execution)
- C. Client Consent Confirmation Notice
- D. Email Consent Form
- E. Amended Form ADV 1
- F. Amended Form ADV 2A
- G. Revised Policies and Procedures Manual
- H. Amended Investment Advisory Agreement
- I. Principal Trading Training and Sign-in Sheet
- J. Tri-Star Financial 2010 Code of Ethics Acknowledgements
- K. Tri-Star Advisors 2011 Code of Ethics Acknowledgements
- L. Tri-Star Advisors 2010 Code of Ethics Acknowledgements

Exhibit 6

FORM ADV UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

ADV - Annual Amendment, Page 1

Rev. 11/2010

3/28/2011 1:59:19 PM

ADV Part 1A, Page 1

WARNING: Complete this form truthfully. False statements or omissions may result in denial of your application, revocation of your registration, or criminal prosecution. You must keep this form updated by filing periodic amendments. See Form ADV General Instruction 3.

Item 1 Identifying Information

Responses to this Item tell us who you are, where you are doing business, and how we can contact you.

- A. Your full legal name (if you are a sole proprietor, your last, first, and middle names):
TRI-STAR ADVISORS INC.
- B. Name under which you primarily conduct your advisory business, if different from Item 1.A.
TRI-STAR ADVISORS, INC.
List on Section 1.B. of Schedule D any additional names under which you conduct your advisory business.
- C. If this filing is reporting a change in your legal name (Item 1.A.) or primary business name (Item 1.B.), enter the new name and specify whether the name change is of
 your legal name or your primary business name:
- D. If you are registered with the SEC as an investment adviser, your SEC file number: 801-70769
- E. If you have a number ("CRD Number") assigned by FINRA's CRD system or by the IARD system, your CRD number: [REDACTED]
If your firm does not have a CRD number, skip this Item 1.E. Do not provide the CRD number of one of your officers, employees, or affiliates.

FORM ADV UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

ADV - Annual Amendment, Page 2

Rev. 11/2010

3/28/2011 1:59:19 PM

Item 1 Identifying Information (Continued)F. *Principal Office and Place of Business*

(1) Address (do not use a P.O. Box):

Number and Street 1:

5718 WESTHEIMER

City:

HOUSTON

State:

TX

Number and Street 2:

SUITE 950

Country:

UNITED STATES

ZIP+4/Postal Code:

77057

Telephone Number: 713.735.9200	Facsimile Number: 713.735.9229		
Number and Street 1: 5718 WESTHEIMER	Number and Street 2:		
City: HOUSTON	State: TX	Country: UNITED STATES	ZIP+4/Postal Code: 77057

Electronic mail (e-mail) address, if contact employee has one:
KDURHAM@TRISTAR.US

The contact employee should be an employee whom you have authorized to receive information and respond to questions about this Form ADV.

- YES NO**
- K. Do you maintain some or all of the books and records you are required to keep under Section 204 of the Advisers Act, or similar state law, somewhere other than your *principal office and place of business*?
- If "yes," complete Section 1.K. of Schedule D.*

- YES NO**
- L. Are you registered with a *foreign financial regulatory authority*?
- Answer "no" if you are not registered with a foreign financial regulatory authority, even if you have an affiliate that is registered with a foreign financial regulatory authority. If "yes," complete Section 1.L. of Schedule D.*

FORM ADV

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

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Item 2 SEC Registration

Responses to this Item help us (and you) determine whether you are eligible to register with the SEC. Complete this Item 2 only if you are applying for SEC registration or submitting an *annual updating amendment* to your SEC registration.

- A. To register (or remain registered) with the SEC, you must check at least one of the Items 2.A(1) through 2.A(11), below. If you are submitting an *annual updating amendment* to your SEC registration and you are no longer eligible to register with the SEC, check Item 2.A(12). You:

(1) have *assets under management* of \$25 million (in U.S. dollars) or more;

See Part 1A Instruction 2.a. to determine whether you should check this box.

(2) have your *principal office and place of business* in Wyoming;

(3) have your *principal office and place of business* outside the United States;

(4) are an investment adviser (or sub-adviser) to an investment company registered under the Investment Company Act of 1940;

See Part 1A Instruction 2.b. to determine whether you should check this box.

- (5) have been designated as a nationally recognized statistical rating organization;

See Part 1A Instruction 2.c. to determine whether you should check this box.

- (6) are a pension consultant that qualifies for the exemption in rule 203A-2(b);

See Part 1A Instruction 2.d. to determine whether you should check this box.

- (7) are relying on rule 203A-2(c) because you are an investment adviser that *controls, is controlled by, or is under common control with*, an investment adviser that is registered with the SEC, and your *principal office and place of business* is the same as the registered adviser;

See Part 1A Instruction 2.e. to determine whether you should check this box. If you check this box, complete Section 2.A(7) of Schedule D.

- (8) are a newly formed adviser relying on rule 203A-2(d) because you expect to be eligible for SEC registration within 120 days;

See Part 1A Instruction 2.f. to determine whether you should check this box. If you check this box, complete Section 2.A(8) of Schedule D.

FORM ADV

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: XXXXXXXXXX

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Item 2 SEC Registration (Continued)

- (9) are a multi-state adviser relying on rule 203A-2(e);

See Part 1A Instruction 2.g. to determine whether you should check this box. If you check this box, complete Section 2.A(9) of Schedule D.

- (10) are an Internet investment adviser relying on rule 203A-2(f);

See Part 1A Instructions 2.h. to determine whether you should check this box.

- (11) have received an SEC order exempting you from the prohibition against registration with the SEC;

If you checked this box, complete Section 2.A(11) of Schedule D.

- (12) are no longer eligible to remain registered with the SEC.

See Part 1A Instructions 2.i. to determine whether you should check this box.

B. Under state laws, SEC-registered advisers may be required to provide to *state securities authorities* a copy of the Form ADV and any amendments they file with the SEC. These are called *notice filings*. If this is an initial application, check the box(es) next to the state(s) that you would like to receive notice of this and all subsequent filings you submit to the SEC. If this is an amendment to direct your *notice filings* to additional state(s), check the box(es) next to the state(s) that you would like to receive notice of this and all subsequent filings you submit to the SEC. If this is an amendment to your registration to stop your *notice filings* from going to state(s) that currently receive them, uncheck the box(es) next to those state(s).

<input type="checkbox"/> AL	<input type="checkbox"/> ID	<input type="checkbox"/> MO	<input type="checkbox"/> PA
<input type="checkbox"/> AK	<input type="checkbox"/> IL	<input type="checkbox"/> MT	<input type="checkbox"/> PR
<input type="checkbox"/> AZ	<input type="checkbox"/> IN	<input type="checkbox"/> NE	<input type="checkbox"/> RI
<input type="checkbox"/> AR	<input type="checkbox"/> IA	<input type="checkbox"/> NV	<input type="checkbox"/> SC
<input type="checkbox"/> CA	<input type="checkbox"/> KS	<input type="checkbox"/> NH	<input type="checkbox"/> SD
<input checked="" type="checkbox"/> CO	<input type="checkbox"/> KY	<input type="checkbox"/> NJ	<input type="checkbox"/> TN
<input type="checkbox"/> CT	<input type="checkbox"/> LA	<input type="checkbox"/> NM	<input checked="" type="checkbox"/> TX
<input type="checkbox"/> DE	<input type="checkbox"/> ME	<input checked="" type="checkbox"/> NY	<input type="checkbox"/> UT
<input type="checkbox"/> DC	<input type="checkbox"/> MD	<input type="checkbox"/> NC	<input type="checkbox"/> VT
<input type="checkbox"/> FL	<input type="checkbox"/> MA	<input type="checkbox"/> ND	<input type="checkbox"/> VI
<input type="checkbox"/> GA	<input type="checkbox"/> MI	<input type="checkbox"/> OH	<input type="checkbox"/> VA
<input type="checkbox"/> GU	<input type="checkbox"/> MN	<input type="checkbox"/> OK	<input type="checkbox"/> WA
<input type="checkbox"/> HI	<input type="checkbox"/> MS	<input type="checkbox"/> OR	<input type="checkbox"/> WV
			<input type="checkbox"/> WI

If you are amending your registration to stop your notice filings from going to a state that currently receives them and you do not want to pay that state's notice filing fee for the coming year, your amendment must be filed before the end of the year (December 31).

Item 3 Form Of Organization

A. How are you organized?

- Corporation
 Sole Proprietorship
 Limited Liability Partnership (LLP)
 Partnership
 Limited Liability Company (LLC)
 Other (specify):

If you are changing your response to this Item, see Part 1A Instruction 4.

FORM ADV UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: XXXXXXXXXX

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Item 3 Form Of Organization (Continued)

- B. In what month does your fiscal year end each year?
December
- C. Under the laws of what state or country are you organized?
State: Country:
Texas UNITED STATES

Item 4 Successions

- | | |
|--|--|
| | YES NO |
| A. Are you, at the time of this filing, succeeding to the business of a registered investment adviser?
<i>If "yes," complete Item 4.B. and Section 4 of Schedule D.</i> | <input type="radio"/> <input checked="" type="radio"/> |
| B. Date of Succession: (MM/DD/YYYY) | |
- If you have already reported this succession on a previous Form ADV filing, do not report the succession again. Instead, check "No." See Part 1A Instruction 4.*

Item 5 Information About Your Advisory Business

Responses to this Item help us understand your business, assist us in preparing for on-site examinations, and provide us with data we use when making regulatory policy. Part 1A Instruction 5.a. provides additional guidance to newly-formed advisers for completing this Item 5.

Employees

- A. Approximately how many *employees* do you have? Include full and part-time *employees* but do not include any clerical workers.

- | | | | | |
|---------------------------------|---------------------------------------|---|------------------------------|-------------------------------|
| <input type="radio"/> 1-5 | <input checked="" type="radio"/> 6-10 | <input type="radio"/> 11-50 | <input type="radio"/> 51-250 | <input type="radio"/> 251-500 |
| <input type="radio"/> 501-1,000 | <input type="radio"/> More than 1,000 | If more than 1,000, how many?
(round to the nearest 1,000) | | |

B.

- (1) Approximately how many of these *employees* perform investment advisory functions (including research)?

- | | | | | |
|-------------------------------|--------------------------------------|---------------------------------------|---|------------------------------|
| <input type="radio"/> 0 | <input checked="" type="radio"/> 1-5 | <input type="radio"/> 6-10 | <input type="radio"/> 11-50 | <input type="radio"/> 51-250 |
| <input type="radio"/> 251-500 | <input type="radio"/> 501-1,000 | <input type="radio"/> More than 1,000 | If more than 1,000, how many?
(round to the nearest 1,000) | |

- (2) Approximately how many of these *employees* are registered representatives of a broker-dealer?

- | | | | | |
|-------------------------------|--------------------------------------|---------------------------------------|---|------------------------------|
| <input type="radio"/> 0 | <input checked="" type="radio"/> 1-5 | <input type="radio"/> 6-10 | <input type="radio"/> 11-50 | <input type="radio"/> 51-250 |
| <input type="radio"/> 251-500 | <input type="radio"/> 501-1,000 | <input type="radio"/> More than 1,000 | If more than 1,000, how many?
(round to the nearest 1,000) | |

If you are organized as a sole proprietorship, include yourself as an employee in your responses to Items 5.A(1) and 5.B(2). If an employee performs more than one function, you should count that employee in each of your responses to Item 5.B(1) and 5.B(2).

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

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Item 5 Information About Your Advisory Business (Continued)

- (3) Approximately how many firms or other persons solicit advisory clients on your behalf?
- 0
 1-5
 6-10
 11-50
 51-250
 251-500
 501-1,000
 More than 1,000
 If more than 1,000, how many?
 (round to the nearest 1,000)

In your response to Item 5.B(3), do not count any of your employees and count a firm only once -- do not count each of the firm's employees that solicit on your behalf.

Clients

- C. To approximately how many clients did you provide investment advisory services during your most-recently completed fiscal year?
- 0
 1-10
 11-25
 26-100
 101-250
 251-500
 More than 500
 If more than 500, how many?
 (round to the nearest 500)

- D. What types of clients do you have? Indicate the approximate percentage that each type of client comprises of your total number of clients.
- | | None | Up | 11- | 26- | 51- | More |
|---|----------------------------------|-----------------------|----------------------------------|-----------------------|-----------------------|-----------------------|
| | to | to | 25% | 50% | 75% | Than |
| | 10% | 10% | | | | 75% |
| (1) Individuals (other than high net worth individuals) | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (2) High net worth individuals | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (3) Banking or thrift institutions | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (4) Investment companies (including mutual funds) | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (5) Pension and profit sharing plans (other than plan participants) | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (6) Other pooled investment vehicles (e.g., hedge funds) | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (7) Charitable organizations | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (8) Corporations or other businesses not listed above | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (9) State or municipal government entities | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (10) Other: | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

The category "individuals" includes trusts, estates, 401(k) plans and IRAs of individuals and their family members, but does not include businesses organized as sole proprietorships.

Unless you provide advisory services pursuant to an investment advisory contract to an investment company registered under the Investment Company Act of 1940, check "None" in response to Item 5.D(4).

FORM ADV UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: XXXXXXXXXX

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Item 5 Information About Your Advisory Business (Continued)

Compensation Arrangements

E. You are compensated for your investment advisory services by (check all that apply):

- (1) A percentage of assets under your management
- (2) Hourly charges
- (3) Subscription fees (for a newsletter or periodical)
- (4) Fixed fees (other than subscription fees)
- (5) Commissions
- (6) Performance-based fees
- (7) Other (specify):

Assets Under Management

F. (1) Do you provide continuous and regular supervisory or management services to securities portfolios? YES NO

(2) If yes, what is the amount of your assets under management and total number of accounts?

	U.S. Dollar Amount	Total Number of Accounts
Discretionary:	(a) \$ 0 .00	(d) 0
Non-Discretionary:	(b) \$ 134030502 .00	(e) 300
Total:	(c) \$ 134030502 .00	(f) 300

Part 1A Instruction 5.b. explains how to calculate your assets under management. You must follow these instructions carefully when completing this Item.

Advisory Activities

G. What type(s) of advisory services do you provide? Check all that apply.

- (1) Financial planning services
- (2) Portfolio management for individuals and/or small businesses
- (3) Portfolio management for investment companies
- (4) Portfolio management for businesses or institutional clients (other than investment companies)
- (5) Pension consulting services
- (6) Selection of other advisers
- (7) Publication of periodicals or newsletters

- (8) Security ratings or pricing services
- (9) Market timing services
- (10) Other (specify):

Do not check Item 5.G(3) unless you provide advisory services pursuant to an investment advisory contract to an investment company registered under the Investment Company Act of 1940.

**FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

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Item 5 Information About Your Advisory Business (Continued)

H. If you provide financial planning services, to how many *clients* did you provide these services during your last fiscal year?

- 0
 - 1-10
 - 11-25
 - 26-50
 - 51-100
 - 101-250
 - 251-500
 - More than 500
- If more than 500, how many?
(round to the nearest 500)

I. If you participate in a *wrap fee program*, do you (check all that apply):

- (1) sponsor the *wrap fee program* ?
- (2) act as a portfolio manager for the *wrap fee program*?

If you are a portfolio manager for a wrap fee program, list the names of the programs and their sponsors in Section 5.I(2) of Schedule D.

If your involvement in a wrap fee program is limited to recommending wrap fee programs to your clients, or you advise a mutual fund that is offered through a wrap fee program, do not check either Item 5.I(1) or 5.I(2).

Item 6 Other Business Activities

In this Item, we request information about your other business activities.

A. You are actively engaged in business as a (check all that apply):

- (1) Broker-dealer
- (2) Registered representative of a broker-dealer
- (3) Futures commission merchant, commodity pool operator, or commodity trading advisor
- (4) Real estate broker, dealer, or agent
- (5) Insurance broker or agent
- (6) Bank (including a separately identifiable department or division of a bank)
- (7) Other financial product salesperson (specify):

YES NO

- | | | |
|---|----------------------------------|----------------------------------|
| B. (1) Are you actively engaged in any other business not listed in Item 6.A. (other than giving investment advice)? | <input type="radio"/> | <input checked="" type="radio"/> |
| (2) If yes, is this other business your primary business?
<i>If "yes," describe this other business on Section 6.B. of Schedule D.</i> | <input type="radio"/> | <input checked="" type="radio"/> |
| | YES | NO |
| (3) Do you sell products or provide services other than investment advice to your advisory clients? | <input checked="" type="radio"/> | <input type="radio"/> |

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

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Item 7 Financial Industry Affiliations

In this Item, we request information about your financial industry affiliations and activities. This information identifies areas in which conflicts of interest may occur between you and your *clients*.

Item 7 requires you to provide information about you and your *related persons*. Your *related persons* are all of your *advisory affiliates* and any *related person* that is under common control with you.

A. You have a *related person* that is a (check all that apply):

- (1) broker-dealer, municipal securities dealer, or government securities broker or dealer
- (2) investment company (including mutual funds)
- (3) other investment adviser (including financial planners)
- (4) futures commission merchant, commodity pool operator, or commodity trading advisor
- (5) banking or thrift institution
- (6) accountant or accounting firm
- (7) lawyer or law firm
- (8) insurance company or agency
- (9) pension consultant
- (10) real estate broker or dealer
- (11) sponsor or syndicator of limited partnerships

If you checked Items 7.A.(1) or (3), you must list on Section 7.A. of Schedule D all your related persons that are investment advisers, broker-dealers, municipal securities dealers, or government securities broker or dealers.

Yes No

- B. Are you or any *related person* a general partner in an *investment-related* limited partnership or manager of an *investment-related* limited liability company, or do you advise any other "private fund" as defined under SEC rule 203(b)(3)-1?

If "yes," for each limited partnership or limited liability company, or (if applicable) private fund, complete Section 7.B. of Schedule D. If, however, you are an SEC-registered adviser and you have related persons that are SEC-registered advisers who are the general partners of limited partnerships or the managers of limited liability companies, you do not have to

complete Section 7.B. of Schedule D with respect to those related advisers' limited partnerships or limited liability companies.

To use this alternative procedure, you must state in the Miscellaneous Section of Schedule D : (1) that you have related SEC-registered investment advisers that manage limited partnerships or limited liability companies that are not listed in Section 7.B. of Schedule D ; (2) that complete and accurate information about those limited partnerships or limited liability companies is available in Section 7.B. of Schedule D of the Form ADVs of your related SEC-registered advisers; and (3) whether your clients are solicited to invest in any of those limited partnerships or limited liability companies.

Item 8 Participation or Interest in Client Transactions

In this Item, we request information about your participation and interest in your clients' transactions. Like Item 7, this information identifies areas in which conflicts of interest may occur between you and your clients.

Like Item 7, Item 8 requires you to provide information about you and your related persons.

**FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

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Item 8 Participation or Interest in Client Transactions (Continued)

Proprietary Interest in Client Transactions

- | | |
|---|--|
| A. Do you or any related person: | Yes No |
| (1) buy securities for yourself from advisory clients, or sell securities you own to advisory clients (principal transactions)? | <input checked="" type="radio"/> <input type="radio"/> |
| (2) buy or sell for yourself securities (other than shares of mutual funds) that you also recommend to advisory clients? | <input checked="" type="radio"/> <input type="radio"/> |
| (3) recommend securities (or other investment products) to advisory clients in which you or any related person has some other proprietary (ownership) interest (other than those mentioned in Items 8.A(1) or (2))? | <input type="radio"/> <input checked="" type="radio"/> |

Sales Interest in Client Transactions

- | | |
|--|--|
| B. Do you or any related person: | Yes No |
| (1) as a broker-dealer or registered representative of a broker-dealer, execute securities trades for brokerage customers in which advisory client securities are sold to or bought from the brokerage customer (agency cross transactions)? | <input checked="" type="radio"/> <input type="radio"/> |
| (2) recommend purchase of securities to advisory clients for which you or any related person serves as underwriter, general or managing partner, or purchaser representative? | <input type="radio"/> <input checked="" type="radio"/> |

- (3) recommend purchase or sale of securities to advisory *clients* for which you or any *related person* has any other sales interest (other than the receipt of sales commissions as a broker or registered representative of a broker-dealer)?

Investment or Brokerage Discretion

- C. Do you or any *related person* have *discretionary authority* to determine the: **Yes No**
- (1) securities to be bought or sold for a *client's* account?
- (2) amount of securities to be bought or sold for a *client's* account?
- (3) broker or dealer to be used for a purchase or sale of securities for a *client's* account?
- (4) commission rates to be paid to a broker or dealer for a *client's* securities transactions?

**FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: XXXXXXXXXX

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Item 8 Participation or Interest in *Client* Transactions (Continued)

- D. Do you or any *related person* recommend brokers or dealers to *clients*?
- E. Do you or any *related person* receive research or other products or services other than execution from a broker-dealer or a third party in connection with *client* securities transactions?
- F. Do you or any *related person*, directly or indirectly, compensate any *person* for *client* referrals?

In responding to this Item 8.F., consider in your response all cash and non-cash compensation that you or a related person gave any person in exchange for client referrals, including any bonus that is based, at least in part, on the number or amount of client referrals.

Item 9 Custody

In this Item, we ask you whether you or a *related person* has *custody* of *client* assets and about your custodial practices.

- A. (1) Do you have *custody* of any advisory *clients'*: **Yes No**
- (a) cash or bank accounts?
- (b) securities?

If you are registering or registered with the SEC, answer "No" to Item 9.A.(1)(a) and (b) if you have custody solely because (i) you deduct your advisory fees directly from your clients' accounts, or (ii) a related person maintains client funds or securities as a qualified custodian but you have overcome the presumption that you are not operationally independent (pursuant to Advisers Act rule 206(4)(2)-(d) (5)) from the related person.

(2) If you checked "yes" to Item 9.A(1)(a) or (b), what is the amount of *client* funds and securities and total number of *clients* for which you have *custody*:

U.S. Dollar Amount	Total Number of Clients
(a)\$	(b)

If your related person serves as qualified custodian of client assets, do not include the amount of those assets and the number of those clients in your response to Item 9.A.(2). Instead, include that information in your response to Item 9.B.(2).

- B. (1) Do any of your *related persons* have *custody* of any of your advisory *clients*?: **Yes No**
- (a) cash or bank accounts?
- (b) securities?

You are required to answer this item regardless of how you answered Item 9.A.(1)(a) or (b).

(2) If you checked "yes" to Item 9.B.(1)(a) or (b), what is the amount of *client* funds and securities and total number of *clients* for which your related persons have *custody*:

U.S. Dollar Amount	Total Number of Clients
(a)\$	(b)

- C. If you or your *related persons* have *custody* of *client* funds or securities, check all the following that apply:
- (1) A qualified custodian(s) sends account statements at least quarterly to the investors in the pooled investment vehicle(s) you manage.
- (2) An independent public accountant audits annually the pooled investment vehicle(s) that you manage and the audited financial statements are distributed to the investors in the pools.
- (3) An independent public accountant conducts an annual surprise examination of *client* funds and securities.
- (4) An independent public accountant prepares an internal control report with respect to custodial services when you or your *related persons* are qualified custodians for *client* funds and securities.

If you checked Item 9.C.(2), C.(3) or C.(4), list in Section 9.C. of Schedule D the accountants that are engaged to perform the audit or examination or prepare an internal control report.

- D. Do you or your *related persons* act as qualified custodians for your *clients* in connection with advisory services you provide to *clients*? **Yes No**
- (1) you act as a qualified custodian
- (2) your *related persons* act as qualified custodians

If you checked "yes" to Item 9.D.(2), list in Section 9.D. of Schedule D all your related persons that act as qualified custodians for your clients in connection with advisory services you provide to clients (you do not have to list broker-dealers already identified as qualified custodians in Section 7.A. of Schedule D).

E. If you are filing your annual updating amendment and you were subject to a surprise examination by an independent public accountant during your last fiscal year, provide the date (MM/YYYY) the examination commenced:

Item 10 Control Persons

In this Item, we ask you to identify every *person* that, directly or indirectly, *controls* you.

If you are submitting an initial application, you must complete Schedule A and Schedule B. Schedule A asks for information about your direct owners and executive officers. Schedule B asks for information about your indirect owners. If this is an amendment and you are updating information you reported on either Schedule A or Schedule B (or both) that you filed with your initial application, you must complete Schedule C.

Does any *person* not named in Item 1.A. or Schedules A, B, or C, directly or indirectly, *control* your management or policies?

YES NO

If yes, complete Section 10 of Schedule D.

FORM ADV

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

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Item 11 Disclosure Information

In this Item, we ask for information about your disciplinary history and the disciplinary history of all your *advisory affiliates*. We use this information to determine whether to grant your application for registration, to decide whether to revoke your registration or to place limitations on your activities as an investment adviser, and to identify potential problem areas to focus on during our on-site examinations. One event may result in "yes" answers to more than one of the questions below.

Your *advisory affiliates* are: (1) all of your current *employees* (other than *employees* performing only clerical, administrative, support or similar functions); (2) all of your officers, partners, or directors (or any *person* performing similar functions); and (3) all *persons* directly or indirectly *controlling* you or *controlled* by you. If you are a "separately identifiable department or division" (SID) of a bank, see the Glossary of Terms to determine who your *advisory affiliates* are.

If you are registered or registering with the SEC, you may limit your disclosure of any event listed in Item 11 to ten years following the date of the event. If you are registered or registering with a state, you must respond to the questions as posed; you may, therefore, limit your disclosure to ten years following the date of an event only in responding to Items 11.A(1), 11.A(2), 11.B(1), 11.B(2), 11.D(4), and 11.H(1)(a). For purposes of calculating this ten-year period, the date of an event is the date the final order, judgment, or decree was entered, or the date any rights of appeal from preliminary orders, judgments, or decrees lapsed.

You must complete the appropriate Disclosure Reporting Page ("DRP") for "yes" answers to the questions in this Item 11.

For "yes" answers to the following questions, complete a Criminal Action DRP:

A. In the past ten years, have you or any *advisory affiliate*:

YES NO

- (1) been convicted of or plead guilty or nolo contendere ("no contest") in a domestic, foreign, or military court to any *felony*?
- (2) been charged with any *felony*?

If you are registered or registering with the SEC, you may limit your response to Item 11.A (2) to charges that are currently pending.

B. In the past ten years, have you or any *advisory affiliate*:

- (1) been convicted of or plead guilty or nolo contendere ("no contest") in a domestic, foreign, or military court to a *misdemeanor* involving: Investments or an *investment-related* business, or any fraud, false statements, or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses?
- (2) been charged with a *misdemeanor* listed in 11.B(1)?

If you are registered or registering with the SEC, you may limit your response to Item 11.B (2) to charges that are currently pending.

FORM ADV UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

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Item 11 Disclosure Information (Continued)

For "yes" answers to the following questions, complete a Regulatory Action DRP:

- | | YES | NO |
|---|-----------------------|----------------------------------|
| C. Has the SEC or the Commodity Futures Trading Commission (CFTC) ever: | | |
| (1) found you or any <i>advisory affiliate</i> to have made a false statement or omission? | <input type="radio"/> | <input checked="" type="radio"/> |
| (2) found you or any <i>advisory affiliate</i> to have been involved in a violation of SEC or CFTC regulations or statutes? | <input type="radio"/> | <input checked="" type="radio"/> |
| (3) found you or any <i>advisory affiliate</i> to have been a cause of an <i>investment-related</i> business having its authorization to do business denied, suspended, revoked, or restricted? | <input type="radio"/> | <input checked="" type="radio"/> |
| (4) entered an order against you or any <i>advisory affiliate</i> in connection with <i>investment-related</i> activity? | <input type="radio"/> | <input checked="" type="radio"/> |
| (5) imposed a civil money penalty on you or any <i>advisory affiliate</i> , or ordered you or any <i>advisory affiliate</i> to cease and desist from any activity? | <input type="radio"/> | <input checked="" type="radio"/> |
| D. Has any other federal regulatory agency, any state regulatory agency, or any <i>foreign financial regulatory authority</i> : | | |
| (1) ever found you or any <i>advisory affiliate</i> to have made a false statement or omission, or been dishonest, unfair, or unethical? | <input type="radio"/> | <input checked="" type="radio"/> |
| (2) ever found you or any <i>advisory affiliate</i> to have been involved in a violation of <i>investment-related</i> regulations or statutes? | <input type="radio"/> | <input checked="" type="radio"/> |

(3) ever found you or any advisory affiliate to have been a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted?

(4) in the past ten years, entered an order against you or any advisory affiliate in connection with an investment-related activity?

(5) ever denied, suspended, or revoked your or any advisory affiliate's registration or license, or otherwise prevented you or any advisory affiliate, by order, from associating with an investment-related business or restricted your or any advisory affiliate's activity?

E. Has any self-regulatory organization or commodities exchange ever:

(1) found you or any advisory affiliate to have made a false statement or omission?

(2) found you or any advisory affiliate to have been involved in a violation of its rules (other than a violation designated as a "minor rule violation" under a plan approved by the SEC)?

(3) found you or any advisory affiliate to have been the cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted?

(4) disciplined you or any advisory affiliate by expelling or suspending you or the advisory affiliate from membership, barring or suspending you or the advisory affiliate from association with other members, or otherwise restricting your or the advisory affiliate's activities?

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

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Item 11 Disclosure Information (Continued)

F. Has an authorization to act as an attorney, accountant, or federal contractor granted to you or any advisory affiliate ever been revoked or suspended?

G. Are you or any advisory affiliate now the subject of any regulatory proceeding that could result in a "yes" answer to any part of Item 11.C., 11.D., or 11.E.?

For "yes" answers to the following questions, complete a Civil Judicial Action DRP:

H. (1) Has any domestic or foreign court:

	YES	NO
(a) in the past ten years, enjoined you or any advisory affiliate in connection with any investment-related activity?	<input checked="" type="radio"/>	<input type="radio"/>
(b) ever found that you or any advisory affiliate were involved in a violation of investment-related statutes or regulations?	<input type="radio"/>	<input checked="" type="radio"/>
(c) ever dismissed, pursuant to a settlement agreement, an investment-related civil action brought against you or any advisory affiliate by a state or foreign financial regulatory authority?	<input checked="" type="radio"/>	<input type="radio"/>

- (2) Are you or any *advisory affiliate* now the subject of any civil proceeding that could result in a "yes" answer to any part of Item 11.H(1)?

Item 12 Small Businesses

The SEC is required by the Regulatory Flexibility Act to consider the effect of its regulations on small entities. In order to do this, we need to determine whether you meet the definition of "small business" or "small organization" under rule 0-7.

Answer this Item 12 only if you are registered or registering with the SEC and you indicated in response to Item 5.F(2)(c) that you have assets under management of less than \$25 million. You are not required to answer this Item 12 if you are filing for initial registration as a state adviser, amending a current state registration, or switching from SEC to state registration.

FORM ADV UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

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Item 12 Small Businesses (Continued)

For purposes of this Item 12 only:

- Total Assets refers to the total assets of a firm, rather than the assets managed on behalf of *clients*. In determining your or another *person's* total assets, you may use the total assets shown on a current balance sheet (but use total assets reported on a consolidated balance sheet with subsidiaries included, if that amount is larger).
- Control means the power to direct or cause the direction of the management or policies of a *person*, whether through ownership of securities, by contract, or otherwise. Any *person* that directly or indirectly has the right to vote 25 percent or more of the voting securities, or is entitled to 25 percent or more of the profits, of another *person* is presumed to control the other *person*.

- | | YES | NO |
|--|-----------------------|----------------------------------|
| A. Did you have total assets of \$5 million or more on the last day of your most recent fiscal year? | <input type="radio"/> | <input checked="" type="radio"/> |

If "yes," you do not need to answer Items 12.B. and 12.C.

B. Do you:

- | | | |
|---|-----------------------|----------------------------------|
| (1) <i>control</i> another investment adviser that had assets under management of \$25 million or more on the last day of its most recent fiscal year? | <input type="radio"/> | <input checked="" type="radio"/> |
| (2) <i>control</i> another <i>person</i> (other than a natural person) that had total assets of \$5 million or more on the last day of its most recent fiscal year? | <input type="radio"/> | <input checked="" type="radio"/> |

C. Are you:

- | | | |
|---|-----------------------|----------------------------------|
| (1) <i>controlled</i> by or under common <i>control</i> with another investment adviser that had assets under management of \$25 million or more on the last day of its most recent fiscal year? | <input type="radio"/> | <input checked="" type="radio"/> |
| (2) <i>controlled</i> by or under common <i>control</i> with another <i>person</i> (other than a natural person) that had total assets of \$5 million or more on the last day of its most recent fiscal year? | <input type="radio"/> | <input checked="" type="radio"/> |

FORM ADV

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.
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You must complete this Part 1B only if you are applying for registration, or are registered, as an investment adviser with any of the state securities authorities.

Part 1B Item 1 - State Registration

Complete this Item 1 if you are submitting an initial application for state registration or requesting additional state registration(s). Check the boxes next to the states to which you are submitting this application. If you are already registered with at least one state and are applying for registration with an additional state or states, check the boxes next to the states in which you are applying for registration. Do not check the boxes next to the states in which you are currently registered or where you have an application for registration pending.

<input type="checkbox"/> AL	<input type="checkbox"/> ID	<input type="checkbox"/> MO	<input type="checkbox"/> PA
<input type="checkbox"/> AK	<input type="checkbox"/> IL	<input type="checkbox"/> MT	<input type="checkbox"/> PR
<input type="checkbox"/> AZ	<input type="checkbox"/> IN	<input type="checkbox"/> NE	<input type="checkbox"/> RI
<input type="checkbox"/> AR	<input type="checkbox"/> IA	<input type="checkbox"/> NV	<input type="checkbox"/> SC
<input type="checkbox"/> CA	<input type="checkbox"/> KS	<input type="checkbox"/> NH	<input type="checkbox"/> SD
<input type="checkbox"/> CO	<input type="checkbox"/> KY	<input type="checkbox"/> NJ	<input type="checkbox"/> TN
<input type="checkbox"/> CT	<input type="checkbox"/> LA	<input type="checkbox"/> NM	<input type="checkbox"/> TX
<input type="checkbox"/> DE	<input type="checkbox"/> ME	<input type="checkbox"/> NY	<input type="checkbox"/> UT
<input type="checkbox"/> DC	<input type="checkbox"/> MD	<input type="checkbox"/> NC	<input type="checkbox"/> VT
<input type="checkbox"/> FL	<input type="checkbox"/> MA	<input type="checkbox"/> ND	<input type="checkbox"/> VI
<input type="checkbox"/> GA	<input type="checkbox"/> MI	<input type="checkbox"/> OH	<input type="checkbox"/> VA
<input type="checkbox"/> GU	<input type="checkbox"/> MN	<input type="checkbox"/> OK	<input type="checkbox"/> WA
<input type="checkbox"/> HI	<input type="checkbox"/> MS	<input type="checkbox"/> OR	<input type="checkbox"/> WV
			<input type="checkbox"/> WI

Part 1B Item 2 - Additional Information
A. Person responsible for supervision and compliance:

Name:

Title:

Telephone:

Fax:

Number and Street 1:

Number and Street 2:

City:	State:	Country:	ZIP+4/Postal Code:
Email address, if available:			
If this address is a private residence, check this box: <input type="checkbox"/>			
B. Bond/Capital Information, if required by your home state.			
(1) Name of Issuing Insurance Company:			
(2) Amount of Bond:			
\$.00			
(3) Bond Policy Number:			
(4) If required by your home state, are you in compliance with your home state's minimum capital requirements?			Yes No <input type="radio"/> <input type="radio"/>

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Part 1B Item 2 - Additional Information (Continued)

	Yes	No
For "yes" answers to the following question, complete a Bond DRP.		
C. Has a bonding company ever denied, paid out on, or revoked a bond for you?	<input type="radio"/>	<input type="radio"/>
For "yes" answers to the following question, complete a Judgment/Lien DRP:		
D. Do you have any unsatisfied judgments or liens against you?	<input type="radio"/>	<input type="radio"/>
For "yes" answers to the following questions, complete an Arbitration DRP:		
E. Are you, any advisory affiliate, or any management person currently the subject of, or have you, any advisory affiliate, or any management person been the subject of, an arbitration claim alleging damages in excess of \$2,500, involving any of the following:		
(1) any investment or an investment-related business of activity?	<input type="radio"/>	<input type="radio"/>
(2) fraud, false statement, or omission?	<input type="radio"/>	<input type="radio"/>
(3) theft, embezzlement, or other wrongful taking of property?	<input type="radio"/>	<input type="radio"/>
(4) bribery, forgery, counterfeiting, or extortion?	<input type="radio"/>	<input type="radio"/>
(5) dishonest, unfair, or unethical practices?	<input type="radio"/>	<input type="radio"/>
For "yes" answers to the following questions, complete a Civil Judicial Action DRP:		
F. Are you, any advisory affiliate, or any management person currently subject to, or have you, any advisory affiliate, or any management person been found liable in, a civil, self-regulatory organization, or administrative proceeding involving any of the following:		
(1) an investment or investment-related business or activity?	<input type="radio"/>	<input type="radio"/>
(2) fraud, false statement, or omission?	<input type="radio"/>	<input type="radio"/>
(3) theft, embezzlement, or other wrongful taking of property?	<input type="radio"/>	<input type="radio"/>

(4) bribery, forgery, counterfeiting, or extortion? (5) dishonest, unfair, or unethical practices?

G. Other Business Activities

(1) You are actively engaged in business as a(n) (check all that apply):

- Attorney
- Certified Public Accountant
- Tax Preparer

FORM ADV**UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

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Part 1B Item 2 - Additional Information (Continued)

(2) If you are actively engaged in any business other than those listed in Item 6.A of Part 1A or Item 2.G(1) of Part 1B, describe the business and the approximate amount of time spent on that business:

H. If you provide financial planning services, the investments made based on those services at the end of your last fiscal year totaled:

	Securities Investments	Non-Securities Investments
Under \$100,000	<input type="radio"/>	<input type="radio"/>
\$100,001 to \$500,000	<input type="radio"/>	<input type="radio"/>
\$500,001 to \$1,000,000	<input type="radio"/>	<input type="radio"/>
\$1,000,001 to \$2,500,000	<input type="radio"/>	<input type="radio"/>
\$2,500,001 to \$5,000,000	<input type="radio"/>	<input type="radio"/>
More than \$5,000,000	<input type="radio"/>	<input type="radio"/>

If securities investments are over \$5,000,000, how much? (round to the nearest \$1,000,000)

If non-securities investments are over \$5,000,000, how much? (round to the nearest \$1,000,000)

Yes No

I. Custody

- (1) Do you withdraw advisory fees directly from your *clients'* accounts? If you answered "yes", respond to the following:
- (a) Do you send a copy of your invoice to the custodian or trustee at the same time that you send a copy to the *client*?
- (b) Does the custodian send quarterly statements to your *clients* showing all disbursements for the custodian account, including the amount of the advisory fees?
- (c) Do your *clients* provide written authorization permitting you to be paid directly for their accounts held by the custodian or trustee?

- (2) Do you act as a general partner for any partnership or trustee for any trust in which your advisory *clients* are either partners of the partnership or beneficiaries of the trust?
 If you answered "yes", respond to the following:
- (a) As the general partner of a partnership, have you engaged an attorney or an independent certified public accountant to provide authority permitting each direct payment or any transfer of funds or securities from the partnership account?
- (3) Do you require the prepayment of fees of more than \$500 per *client* and for six months or more in advance?

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 UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

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Part 1B Item 2 - Additional Information (Continued)

	Yes	No
J. If you are organized as a sole proprietorship, please answer the following:		
(1) (a) Have you passed, on or after January 1, 2000, the Series 65 examination?	<input type="radio"/>	<input type="radio"/>
(b) Have you passed, on or after January 1, 2000, the Series 66 examination and also passed, at any time, the Series 7 examination?	<input type="radio"/>	<input type="radio"/>
(2) (a) Do you have any investment advisory professional designations? If "no", you do not need to answer Item 2.J(2)(b).	<input type="radio"/>	<input type="radio"/>
(b) I have earned and I am in good standing with the organization that issued the following credential:		
<input type="checkbox"/> Certified Financial Planner ("CFP")		
<input type="checkbox"/> Chartered Financial Analyst ("CFA")		
<input type="checkbox"/> Chartered Financial Consultant ("ChFC")		
<input type="checkbox"/> Chartered Investment Counselor ("CIC")		
<input type="checkbox"/> Personal Financial Specialist ("PFS")		
<input type="checkbox"/> None of the above		
(3) Your Social Security Number:		

**FORM ADV
 UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

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Amend, retire or file new brochures:

Brochure ID	Brochure Name	Brochure Type(s)
41408	TRI-STAR ADV 2A 3.28.2011	Individuals, High net worth Individuals, Pension plans/profit

sharing plans, Pension consulting, Foundations/charities

FORM ADV

UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.
CRD Number:
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Form ADV, Schedule A
Direct Owners and Executive Officers

1. Complete Schedule A only if you are submitting an initial application. Schedule A asks for information about your direct owners and executive officers. Use Schedule C to amend this information.
2. Direct Owners and Executive Officers. List below the names of:
 - (a) each Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Legal Officer, Chief Compliance Officer (Chief Compliance Officer is required and cannot be more than one individual), director, and any other individuals with similar status or functions;
 - (b) if you are organized as a corporation, each shareholder that is a direct owner of 5% or more of a class of your voting securities, unless you are a public reporting company (a company subject to Section 12 or 15(d) of the Exchange Act);

Direct owners include any *person* that owns, beneficially owns, has the right to vote, or has the power to sell or direct the sale of, 5% or more of a class of your voting securities. For purposes of this Schedule, a *person* beneficially owns any securities: (i) owned by his/her child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, sharing the same residence; or (ii) that he/she has the right to acquire, within 60 days, through the exercise of any option, warrant, or right to purchase the security.

- (c) if you are organized as a partnership, all general partners and those limited and special partners that have the right to receive upon dissolution, or have contributed, 5% or more of your capital;
 - (d) in the case of a trust that directly owns 5% or more of a class of your voting securities, or that has the right to receive upon dissolution, or has contributed, 5% or more of your capital, the trust and each trustee; and
 - (e) if you are organized as a limited liability company ("LLC"), (i) those members that have the right to receive upon dissolution, or have contributed, 5% or more of your capital, and (ii) if managed by elected managers, all elected managers.
3. Do you have any indirect owners to be reported on Schedule B? Yes No
 4. In the DE/FE/I column below, enter "DE" if the owner is a domestic entity, "FE" if the owner is an entity incorporated or domiciled in a foreign country, or "I" if the owner or executive officer is an individual.
 5. Complete the Title or Status column by entering board/management titles; status as partner, trustee, sole proprietor, elected manager, shareholder, or member; and for shareholders or members, the class of securities owned (if more than one is issued).

6. Ownership codes are:
- | | | |
|--------------------------|---------------------------|---------------------------|
| NA - less than 5% | B - 10% but less than 25% | D - 50% but less than 75% |
| A - 5% but less than 10% | C - 25% but less than 50% | E - 75% or more |

7. (a) In the *Control Person* column, enter "Yes" if the *person* has *control* as defined in the Glossary of Terms to Form ADV, and enter "No" if the *person* does not have *control*. Note that under this definition, most executive officers and all 25% owners, general partners, elected managers, and trustees are *control persons*.

(b) In the PR column, enter "PR" if the owner is a public reporting company under Sections 12 or 15 (d) of the Exchange Act.

(c) Complete each column.

FULL LEGAL NAME (Individuals: Last Name, First Name, Middle Name)	DE/FE/I	Title or Status	Date Title or Status Acquired MM/YYYY	Ownership Code	Control Person	PR	CRD No. If None: S.S. No. and Date of Birth, IRS Tax No., or Employer ID No.
PAYNE, WILLIAM, THOMAS	I	CHIEF EXECUTIVE OFFICER	09/2009	D	Y	N	██████████
VAUGHAN, JON, CARTER	I	PRESIDENT	09/2009	D	Y	N	██████████
DURHAM, KELLY	I	CHIEF COMPLIANCE OFFICER	12/2009	NA	N	N	██████████

**FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: ██████████

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Form ADV, Schedule B

Indirect Owners

- Complete Schedule B only if you are submitting an initial application. Schedule B asks for information about your indirect owners; you must first complete Schedule A, which asks for information about your direct owners. Use Schedule C to amend this information.
- Indirect Owners. With respect to each owner listed on Schedule A (except individual owners), list below:
 - in the case of an owner that is a corporation, each of its shareholders that beneficially owns, has the right to vote, or has the power to sell or direct the sale of, 25% or more of a class of a voting security of that corporation;

For purposes of this Schedule, a *person* beneficially owns any securities: (i) owned by his/her child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, sharing the same residence; or (ii) that he/she has the right to acquire, within 60 days, through the exercise of any option, warrant, or right to purchase the security.

- (b) in the case of an owner that is a partnership, all general partners and those limited and special partners that have the right to receive upon dissolution, or have contributed, 25% or more of the partnership's capital;
 - (c) in the case of an owner that is a trust, the trust and each trustee; and
 - (d) in the case of an owner that is a limited liability company ("LLC"), (i) those members that have the right to receive upon dissolution, or have contributed, 25% or more of the LLC's capital, and (ii) if managed by elected managers, all elected managers.
3. Continue up the chain of ownership listing all 25% owners at each level. Once a public reporting company (a company subject to Sections 12 or 15(d) of the Exchange Act) is reached, no further ownership information need be given.
4. In the DE/FE/I column below, enter "DE" if the owner is a domestic entity, "FE" if the owner is an entity incorporated or domiciled in a foreign country, or "I" if the owner is an individual.
5. Complete the Status column by entering the owner's status as partner, trustee, elected manager, shareholder, or member; and for shareholders or members, the class of securities owned (if more than one is issued).
6. Ownership codes are:
- | | |
|---------------------------|--|
| C - 25% but less than 50% | E - 75% or more |
| D - 50% but less than 75% | F - Other (general partner, trustee, or elected manager) |
7. (a) In the *Control Person* column, enter "Yes" if the *person* has *control* as defined in the Glossary of Terms to Form ADV, and enter "No" if the *person* does not have *control*. Note that under this definition, most executive officers and all 25% owners, general partners, elected managers, and trustees are *control persons*.
- (b) In the PR column, enter "PR" if the owner is a public reporting company under Sections 12 or 15 (d) of the Exchange Act.
- (c) Complete each column.

No Indirect Owner Information Filed

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.
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Form ADV, Schedule C

Amendments to Schedules A and B

- 1. Use Schedule C only to amend information requested on either Schedule A or Schedule B. Refer to Schedule A and Schedule B for specific instructions for completing this Schedule C. Complete each column.
 - 2. In the Type of Amendment column, indicate "A" (addition), "D" (deletion), or "C" (change in information about the same *person*).
 - 3. Ownership codes are:
- | | | |
|---------------------------|---------------------------|---|
| NA - less than 5% | C - 25% but less than 50% | G - Other (general partner, trustee, or elected member) |
| A - 5% but less than 10% | D - 50% but less than 75% | |
| B - 10% but less than 25% | E - 75% or more | |

4. List below all changes to Schedule A (Direct Owners and Executive Officers):
No Changes to Direct Owner / Executive Officer Information Filed
5. List below all changes to Schedule B (Indirect Owners):
No Changes to Indirect Owner Information Filed

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.
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Form ADV, Schedule D Page 1
Certain items in Part 1A of Form ADV require additional information on Schedule D. Use this Schedule D Page 1 to report details for items listed below. Report only new information or changes/updates to previously submitted information. Do not repeat previously submitted information.
Section 1.B. Other Business Names
List your other business names and the jurisdictions in which you use them. You must complete a separate Schedule D for each business name.
No Information Filed
Section 1.F. Other Offices
Complete the following information for each office, other than your <i>principal office and place of business</i> , at which you conduct investment advisory business. You must complete a separate Schedule D Page 1 for each location. If you are applying for registration, or are registered, only with the SEC, list only the largest five (in terms of numbers of <i>employees</i>).
No Information Filed
Section 1.I. World Wide Web Site Addresses
List your World Wide Web site addresses. You must complete a separate Schedule D for each World Wide Web site address.
World Wide Web Site Address: WWW.TRISTARADVISOR.COM
Section 1.K. Locations of Books and Records
Complete the following information for each location at which you keep your books and records, other than your <i>principal office and place of business</i> . You must complete a separate Schedule D Page 1 for each location.
No Information Filed

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

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Form ADV, Schedule D Page 2

Use this Schedule D Page 2 to report details for items listed below. Report only new information or changes/updates to previously submitted information. Do not repeat previously submitted information.

Section 1.L. Registration with Foreign Financial Regulatory Authorities

List the name, in English, of each *foreign financial regulatory authority* and country with which you are registered. You must complete a separate Schedule D Page 2 for each *foreign financial regulatory authority* with whom you are registered.

No Information Filed

Section 2.A(7) Affiliated Adviser

No Information Filed

Section 2.A(8) Newly Formed Adviser

If you are relying on rule 203A-2(d), the newly formed adviser exemption from the prohibition on registration, you are required to make certain representations about your eligibility for SEC registration. By checking the appropriate boxes, you will be deemed to have made the required representations. You must make both of these representations:

- I am not registered or required to be registered with the SEC or a *state securities authority* and I have a reasonable expectation that I will be eligible to register with the SEC within 120 days after the date my registration with the SEC becomes effective.
- I undertake to withdraw from SEC registration if, on the 120th day after my registration with the SEC becomes effective, I would be prohibited by Section 203A(a) of the Advisers Act from registering with the SEC.

Section 2.A(9) Multi-State Adviser

If you are relying on rule 203A-2(e), the multi-state adviser exemption from the prohibition on registration, you are required to make certain representations about your eligibility for SEC registration. By checking the appropriate boxes, you will be deemed to have made the required representations.

If you are applying for registration as an investment adviser with the SEC, you must make both of these representations:

- I have reviewed the applicable state and federal laws and have concluded that I am required by the laws of 30 or more states to register as an investment adviser with the securities authorities in those states.
- I undertake to withdraw from SEC registration if I file an amendment to this registration indicating that I would be required by the laws of fewer than 25 states to register as an investment adviser with the securities authorities of those states.

If you are submitting your *annual updating amendment*, you must make this representation:

- Within 90 days prior to the date of filing this amendment, I have reviewed the applicable state and federal laws and have concluded that I am required by the laws of at least 25 states to register as an investment adviser with the securities authorities in those states.

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

ADV - Annual Amendment, SCHEDULE D, Page 3

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Form ADV, Schedule D Page 3

Use this Schedule D Page 3 to report details for items listed below. Report only new information or changes/updates to previously submitted information. Do not repeat previously submitted information.

Section 2.A(11) SEC Exemptive Order

No Information Filed

Section 4 Successions

Complete the following information if you are succeeding to the business of a currently-registered investment adviser. If you acquired more than one firm in the succession you are reporting on this Form ADV, you must complete a separate Schedule D Page 3 for each acquired firm. See Part 1A Instruction 4.

No Information Filed

Section 5.I(2) Wrap Fee Programs

If you are a portfolio manager for one or more *wrap fee programs*, list the name of each program and its *sponsor*. You must complete a separate Schedule D Page 3 for each *wrap fee program* for which you are a portfolio manager.

No Information Filed

Section 6.B. Description of Primary Business

No Information Filed

Section 7.A. Affiliated Investment Advisers and Broker-Dealers

You must complete the following information for each *related person* investment adviser and broker-dealer. You must complete a separate Schedule D Page 3 for each listed *related person*.

(1) Legal Name of *Related Person*:

MUTUAL MONEY INVESTMENTS, INC.

(2) Primary Business Name of *Related Person*:

TRI-STAR FINANCIAL

(3) *Related Person* is (check only one box):

- Investment Adviser
 Broker-Dealer
 Dual (Investment Adviser and Broker-Dealer)

(4) If the *related person* is a broker-dealer, is it a qualified custodian for your *clients* in connection with advisory services you provide to *clients*?

Yes No

(5) If you are registering or registered with the SEC and you have answered "yes," have you overcome the presumption that you are not operationally independent (pursuant to Advisers Act rule 206(4)(2)-(d)(5)) from the *related person* broker-dealer, and thus are not required to obtain a surprise examination for your *clients'* funds or securities that are maintained at the *related person* ?

 Related Person Adviser's SEC File Number (if any)

801-

Related Person's CRD Number (if any):

32458

FORM ADV**UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: XXXXXXXXXX

ADV - Annual Amendment, SCHEDULE D, Page 4

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Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: [REDACTED]

ADV - Annual Amendment, DRP Pages

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CRIMINAL DISCLOSURE REPORTING PAGE (ADV)
No Information Filed
REGULATORY ACTION DISCLOSURE REPORTING PAGE (ADV)
No Information Filed
CIVIL JUDICIAL ACTION DISCLOSURE REPORTING PAGE (ADV)
GENERAL INSTRUCTIONS
This Disclosure Reporting Page (DRP ADV) is an <input type="radio"/> INITIAL OR <input checked="" type="radio"/> AMENDED response used to report details for affirmative responses to Item 11.H. of Part 1A and Item 2.F. of Part 1B of Form ADV.
Check Part 1A item(s) being responded to:
Civil Judicial
<input checked="" type="checkbox"/> 11.H(1)(a) <input type="checkbox"/> 11.H(1)(b) <input checked="" type="checkbox"/> 11.H(1)(c) <input type="checkbox"/> 11.H(2)
Check Part 1B Item(s) being responded to:
Civil Judicial
<input type="checkbox"/> 2.F(1) <input type="checkbox"/> 2.F(2) <input type="checkbox"/> 2.F(3) <input type="checkbox"/> 2.F(4) <input type="checkbox"/> 2.F(5)
Use a separate DRP for each event or <i>proceeding</i> . The same event or <i>proceeding</i> may be reported for more than one <i>person</i> or entity using one DRP. File with a completed Execution Page.
One event may result in more than one affirmative answer to Item 11.H. of Part 1A or Item 2.F. of Part 1B. Use only one DRP to report details related to the same event. Unrelated civil judicial actions must be reported on separate DRPs.
PART I
A. The <i>person(s)</i> or entity(ies) for whom this DRP is being filed is (are):
<input type="radio"/> You (the advisory firm)
<input type="radio"/> You and one or more of your <i>advisory affiliates</i>
<input checked="" type="radio"/> One or more of your <i>advisory affiliates</i>
If this DRP is being filed for an <i>advisory affiliate</i> , give the full name of the <i>advisory affiliate</i> below (for individuals, Last name, First name, Middle name).
If the <i>advisory affiliate</i> has a CRD number, provide that number. If not, indicate "non-registered" by checking the appropriate box.
ADV DRP - ADVISORY AFFILIATE
CRD Number: <u>32458</u> This <i>advisory affiliate</i> is <input checked="" type="radio"/> a Firm <input type="radio"/> an Individual
Registered: <input checked="" type="radio"/> Yes <input type="radio"/> No

<p>Name: MUTUAL MONEY INVESTMENTS, INC. (For individuals, Last, First, Middle)</p>
<p><input type="checkbox"/> This DRP should be removed from the ADV record because the <i>advisory affiliate(s)</i> is no longer associated with the adviser.</p> <p><input type="checkbox"/> This DRP should be removed from the ADV record because: (1) the event or <i>proceeding</i> occurred more than ten years ago or (2) the adviser is registered or applying for registration with the SEC and the event was resolved in the adviser's or advisory affiliate's favor.</p> <p>If you are registered or registering with a <i>state securities authority</i>, you may remove a DRP for an event you reported only in response to Item 11.H(1)(a), and only if that event occurred more than ten years ago. If you are registered or registering with the SEC, you may remove a DRP for any event listed in Item 11 that occurred more than ten years ago.</p>
<p>B. If the <i>advisory affiliate</i> is registered through the IARD system or CRD system, has the <i>advisory affiliate</i> submitted a DRP (with Form ADV, BD, or U-4) to the IARD or CRD for the event? If the answer is "Yes," no other information on this DRP must be provided.</p> <p><input checked="" type="radio"/> Yes <input type="radio"/> No</p>
<p>NOTE: The completion of this form does not relieve the <i>advisory affiliate</i> of its obligation to update its IARD or CRD records.</p>
<p>PART II</p>
<p>1. Court Action initiated by: (Name of regulator, <i>foreign financial regulatory authority</i>, SRO, commodities exchange, agency, firm, private plaintiff, etc.)</p>
<p>2. Principal Relief Sought:</p> <p>Other Relief Sought:</p>
<p>3. Filing Date of Court Action (MM/DD/YYYY):</p> <p><input type="radio"/> Exact <input type="radio"/> Explanation</p> <p>If not exact, provide explanation:</p>
<p>4. Principal Product Type:</p> <p>Other Product Types:</p>
<p>5. Formal Action was brought in (include name of Federal, State or Foreign Court, Location of Court - City or County <u>and</u> State or Country, Docket/Case Number):</p>
<p>6. <i>Advisory Affiliate</i> Employing Firm when activity occurred which led to the civil judicial action (if applicable):</p>
<p>7. Describe the allegations related to this civil action (your response must fit within the space provided):</p>
<p>8. Current Status? <input type="radio"/> Pending <input type="radio"/> On Appeal <input type="radio"/> Final</p>

<p>9. If on appeal, action appealed to (provide name of court) and Date Appeal Filed (MM/DD/YYYY):</p>		
<p>10. If pending, date notice/process was served (MM/DD/YYYY):</p> <p><input type="radio"/> Exact <input type="radio"/> Explanation</p> <p>If not exact, provide explanation:</p>		
<p>If Final or On Appeal, complete all items below. For Pending Actions, complete Item 14 only.</p> <p>11. How was matter resolved:</p> <p>12. Resolution Date (MM/DD/YYYY):</p> <p><input type="radio"/> Exact <input type="radio"/> Explanation</p> <p>If not exact, provide explanation:</p>		
<p>13. Resolution Detail:</p> <p>A. Were any of the following Sanctions Ordered or Relief Granted (check appropriate items)?</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Monetary/Fine Amount:\$ <input type="checkbox"/> Revocation/Expulsion/Denial <input type="checkbox"/> Censure <input type="checkbox"/> Bar </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Disgorgement/Restitution <input type="checkbox"/> Cease and Desist/Injunction <input type="checkbox"/> Suspension </td> </tr> </table> <p>B. Other Sanctions:</p> <p>C. Sanction detail: If suspended, <i>enjoined</i> or barred, provide duration including start date and capacities affected (General Securities Principal, Financial Operations Principal, etc.). If requalification by exam/retraining was a condition of the sanction, provide length of time given to requalify/retrain, type of exam required and whether condition has been satisfied. If disposition resulted in a fine, penalty, restitution, disgorgement or monetary compensation, provide total amount, portion levied against you or an <i>advisory affiliate</i>, date paid and if any portion of penalty was waived:</p>	<input type="checkbox"/> Monetary/Fine Amount:\$ <input type="checkbox"/> Revocation/Expulsion/Denial <input type="checkbox"/> Censure <input type="checkbox"/> Bar	<input type="checkbox"/> Disgorgement/Restitution <input type="checkbox"/> Cease and Desist/Injunction <input type="checkbox"/> Suspension
<input type="checkbox"/> Monetary/Fine Amount:\$ <input type="checkbox"/> Revocation/Expulsion/Denial <input type="checkbox"/> Censure <input type="checkbox"/> Bar	<input type="checkbox"/> Disgorgement/Restitution <input type="checkbox"/> Cease and Desist/Injunction <input type="checkbox"/> Suspension	
<p>14. Provide a brief summary of circumstances related to the action(s), allegation(s), disposition(s) and/or finding(s) disclosed above (your response must fit within the space provided)</p>		
<p>Bond DRPs</p> <p>No Information Filed</p>		
<p>Judgment/Lien DRPs</p> <p>No Information Filed</p>		
<p>Arbitration DRPs</p> <p>No Information Filed</p>		

FORM ADV
UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION

Primary Business Name: TRI-STAR ADVISORS, INC.

CRD Number: XXXXXXXXXX

ADV - Annual Amendment, Execution Pages
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DOMESTIC INVESTMENT ADVISER EXECUTION PAGE

You must complete the following Execution Page to Form ADV. This execution page must be signed and attached to your initial application for SEC registration and all amendments to registration.

Appointment of Agent for Service of Process

By signing this Form ADV Execution Page, you, the undersigned adviser, irrevocably appoint the Secretary of State or other legally designated officer, of the state in which you maintain your *principal office and place of business* and any other state in which you are submitting a *notice filing*, as your agents to receive service, and agree that such *persons* may accept service on your behalf, of any notice, subpoena, summons, *order instituting proceedings*, demand for arbitration, or other process or papers, and you further agree that such service may be made by registered or certified mail, in any federal or state action, administrative *proceeding* or arbitration brought against you in any place subject to the jurisdiction of the United States, if the action, *proceeding* or arbitration (a) arises out of any activity in connection with your investment advisory business that is subject to the jurisdiction of the United States, and (b) is *founded*, directly or indirectly, upon the provisions of: (i) the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, or the Investment Advisers Act of 1940, or any rule or regulation under any of these acts, or (ii) the laws of the state in which you maintain your *principal office and place of business* or of any state in which you are submitting a *notice filing*.

Signature

I, the undersigned, sign this Form ADV on behalf of, and with the authority of, the investment adviser. The investment adviser and I both certify, under penalty of perjury under the laws of the United States of America, that the information and statements made in this ADV, including exhibits and any other information submitted, are true and correct, and that I am signing this Form ADV Execution Page as a free and voluntary act.

I certify that the adviser's books and records will be preserved and available for inspection as required by law. Finally, I authorize any *person* having custody or possession of these books and records to make them available to federal and state regulatory representatives.

Signature:	Date: MM/DD/YYYY
KELLY DURHAM	03/11/2011
Printed Name:	Title:
KELLY DURHAM	CHIEF COMPLIANCE OFFICER
Adviser CRD Number:	
██████████	

NON-RESIDENT INVESTMENT ADVISER EXECUTION PAGE

You must complete the following Execution Page to Form ADV. This execution page must be signed and attached to your initial application for SEC registration and all amendments to registration.

1. Appointment of Agent for Service of Process

By signing this Form ADV Execution Page, you, the undersigned adviser, irrevocably appoint each of the Secretary of the SEC, and the Secretary of State or other legally designated officer, of any other state in which you are submitting a *notice filing*, as your agents to receive service, and agree that such *persons* may accept service on your behalf, of any notice, subpoena, summons, *order* instituting *proceedings*, demand for arbitration, or other process or papers, and you further agree that such service may be made by registered or certified mail, in any federal or state action, administrative *proceeding* or arbitration brought against you in any place subject to the jurisdiction of the United States, if the action, *proceeding*, or arbitration (a) arises out of any activity in connection with your investment advisory business that is subject to the jurisdiction of the United States, and (b) is *founded*, directly or indirectly, upon the provisions of: (i) the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, or the Investment Advisers Act of 1940, or any rule or regulation under any of these acts, or (ii) the laws of any state in which you are submitting a *notice filing*.

2. Appointment and Consent: Effect on Partnerships

If you are organized as a partnership, this irrevocable power of attorney and consent to service of process will continue in effect if any partner withdraws from or is admitted to the partnership, provided that the admission or withdrawal does not create a new partnership. If the partnership dissolves, this irrevocable power of attorney and consent shall be in effect for any action brought against you or any of your former partners.

3. *Non-Resident* Investment Adviser Undertaking Regarding Books and Records

By signing this Form ADV, you also agree to provide, at your own expense, to the U.S. Securities and Exchange Commission at its principal office in Washington D.C., at any Regional or District Office of the Commission, or at any one of its offices in the United States, as specified by the Commission, correct, current, and complete copies of any or all records that you are required to maintain under Rule 204-2 under the Investment Advisers Act of 1940. This undertaking shall be binding upon you, your heirs, successors and assigns, and any *person* subject to your written irrevocable consents or powers of attorney or any of your general partners and *managing agents*.

Signature

I, the undersigned, sign this Form ADV on behalf of, and with the authority of, the *non-resident* investment adviser. The investment adviser and I both certify, under penalty of perjury under the laws of the United States of America, that the information and statements made in this ADV, including exhibits and any other information submitted, are true and correct, and that I am signing this Form ADV Execution Page as a free and voluntary act.

I certify that the adviser's books and records will be preserved and available for inspection as required by law. Finally, I authorize any *person* having custody or possession of these books and records to make them available to federal and state regulatory representatives.

Signature: _____ Date: MM/DD/YYYY

Printed Name: _____ Title: _____

Adviser CRD Number: _____

State Registered Investment Adviser Execution Page

You must complete the following Execution Page to Form ADV. This execution page must be signed and attached to your initial application for state registration and all amendments to registration.

1. Appointment of Agent for Service of Process

By signing this Form ADV Execution Page, you, the undersigned adviser, irrevocably appoint the legally designated officers and their successors, of the state in which you maintain your *principal office and place of business* and any other state in which you are applying for registration or amending your registration, as your agents to receive service, and agree that such persons may accept service on your behalf, of any notice, subpoena, summons, *order instituting proceedings*, demand for arbitration, or other process or papers, and you further agree that such service may be made by registered or certified mail, in any federal or state action, administrative *proceeding* or arbitration brought against you in any place subject to the jurisdiction of the United States, if the action, *proceeding*, or arbitration (a) arises out of any activity in connection with your investment advisory business that is subject to the jurisdiction of the United States, and (b) is founded, directly or indirectly, upon the provisions of: (i) the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, or the Investment Advisers Act of 1940, or any rule or regulation under any of these acts, or (ii) the laws of the state in which you maintain your *principal office and place of business* or of any state in which you are applying for registration or amending your registration.

2. State-Registered Investment Adviser Affidavit

If you are subject to state regulation, by signing this Form ADV, you represent that, you are in compliance with the registration requirements of the state in which you maintain your principal place of business and are in compliance with the bonding, capital, and recordkeeping requirements of that state.

Signature

I, the undersigned, sign this Form ADV on behalf of, and with the authority of, the investment adviser. The investment adviser and I both certify, under penalty of perjury under the laws of the United States of America, that the information and statements made in this ADV, including exhibits and any other information submitted, are true and correct, and that I am signing this Form ADV Execution Page as a free and voluntary act.

I certify that the adviser's books and records will be preserved and available for inspection as required by law. Finally, I authorize any *person* having *custody* or possession of these books and records to make them available to federal and state regulatory representatives.

Signature	Date MM/DD/YYYY
CRD Number [REDACTED]	
Printed Name	Title

Exhibit 7

TRI-STAR
A D V I S O R S



5718 Westheimer, Suite 950
Houston, TX 77057

713-735-9217
kdurham@tristar.us
www.tristaradvisor.com

March 2011

This brochure provides information about the qualifications and business practices of Tri-Star Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 713-735-9217 or www.tristaradvisor.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.

Additional information about Tri-Star Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

Because much of the information in this Part 2A of Form ADV is additional information not previously provided in our Part II of Form ADV, we recommend that you read this Part 2A of Form ADV in its entirety.

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ADVISORY BUSINESS

Advisory Firm Description

Tri-Star Advisors, Inc. ("TSA" or the "Firm") has been in business since November 2009. The principal owners are William Thomas Payne and Jon Carter Vaughan.

Types of Advisory Services

TSA provides a "managed account service" to individuals and entities wanting portfolio management. TSA also provides its "self-directed retirement plan asset management program" to plan sponsors requiring assistance with managing their retirement plans and educating the plan participants.

First, TSA meets with clients to determine the client's investment objective. Then TSA places trades in the client's account, choosing investments which TSA personnel believe to be appropriate for that client. Recommended investments may include cash, bonds, exchange traded funds (ETFs), mutual funds and stocks, with selection of specific securities providing proper diversification in order to meet the client's stated investment objectives. Individual securities are selected to achieve the desired balance between expected risk and expected return.

TSA's managed account service includes:

- Selecting investments and executing trades.
- Selecting and monitoring sub-advisors when appropriate.
- Periodic reporting.
- Re-balancing the portfolio when appropriate.
- Re-allocating the portfolio due to client's investment objectives or investment strategy due to changes in economic or market conditions.
- Tax loss harvesting (where applicable).

TSA's self-directed retirement plan asset management program includes:

- Providing participant investment education services.
- Providing mutual fund analysis, objective selection and ongoing evaluation.
- Actively managing asset allocation within portfolios.
- Investing plan assets in accordance with the investment strategy.
- Monitoring performance of all selected assets or portfolios.
- Recommending changes when appropriate to any of the above.
- Preparing and presenting appropriate reports and handouts to sponsors and/or investment committees.

Client Assets Under Management

At December 31, 2010, TSA had \$134,090,502 of non-discretionary assets under management.

FEEES AND COMPENSATION

Managed Account Fees

Compensation is provided to TSA for managed accounts by charging a percent of assets under management. The fee is a percentage of the market value of all assets in the client's account as valued by the custodian at the close of market on the last trading day of each calendar quarter. The management fee is payable quarterly in advance according to the following schedule and is usually deducted from the client's account. Otherwise a client may instruct TSA to invoice the client, in which case the fee is due within 30 days of the invoice date.

<u>Portfolio Assets</u>	<u>Quarterly</u>	<u>Annually</u>
Less Than \$500,000	.3750%	1.50%
\$500,001 – \$1,000,000	.3125%	1.25%
\$1,000,001 – \$3,000,000	.2500%	1.00%
Over \$3,000,000	.1875%	.75%

Accounts in the same household will be aggregated to attain the lowest fee possible. The above fees are negotiable.

Certain clients of TSA with pre-existing relationships may initially be charged fees which are less than those shown above. Quarterly fees may be less for certain employee or family accounts, depending on a number of factors including portfolio size, length of employment and relationship to the employee. Clients receiving the same service from TSA may be paying different fees.

The investment advisory agreement will continue in effect until terminated by either party by written notice to the other. Upon termination, any uncollected fees and expenses will be deducted from the account and the client will receive a refund of a prorated portion of the pre-paid advisory fee.

Retirement Plan Fees

The investment advisory fee is calculated as of market close of the last business day of each calendar quarter by charging according to the following fee schedule. These fees are usually deducted directly from the plan account, are charged in advance and are negotiable.

<u>Portfolio Assets</u>	<u>Quarterly</u>	<u>Annually</u>
\$0 – \$2,500,000	.18750%	.750%
\$2,500,001 – \$5,000,000	.15000%	.600%
\$5,000,001 – \$10,000,000	.12500%	.500%
\$10,000,001 – \$25,000,000	.01000%	.400%
\$25,000,001 – \$40,000,000	.07500%	.300%
\$40,000,001 – \$65,000,000	.05000%	.200%
\$65,000,001 – \$100,000,000	.03750%	.150%
Over \$100,000,000	.02500%	.100%

Additional expenses incurred by TSA for investment-related services will be billed to the plan separately. In the event of termination of this agreement, the fee will be adjusted, on a pro rata basis, to charge only for the portion of the final quarter in which termination occurs. A refund of prepaid unearned fees will be sent to the account or the client in a timely manner.

General Discussion Concerning Fees

Billing of investment management fees will commence at the start of the first quarter after the client's money has been invested by TSA. To the extent that such investment occurs in a month that is not the quarter-end, the client will be billed in advance on a pro rata basis, using the account value at the month-end in which the investment occurred as the basis for the fee calculation. Prospective clients are advised that lower fees for comparable services may be available from other sources.

To the extent mutual and money market funds are selected to fill components of the overall investment strategy, the annual advisory fee set forth above does not include the customary fees and expenses associated with investing in mutual or money market funds or other costs of establishing and maintaining an account with mutual funds, including Rule 12b-1 fees and expenses. The client is advised that, in addition to the annual advisory fee set forth above, each mutual or money market fund in which assets are invested will incur separate investment advisory fees and other expenses for which the client will bear a proportionate share. These fees are fully disclosed in each fund's prospectus which is provided to each client by the account custodian.

Transaction fees, exchange fees, custodial fees and other such fees are paid directly by the client account to the broker or custodian and are in addition to the investment management fees listed above.

Additional Compensation

TSA has an affiliate, Tri-Star Financial, which is a registered broker/dealer, with which TSA personnel are registered representatives. Thus, TSA may place trades for its clients through this affiliated broker/dealer, which may then collect markups for those trades. When fixed income products are sold to TSA clients, the standard markup is decreased in an effort to ensure competitive pricing. A portion of these markups are paid to TSA personnel, and TSA personnel who are owners of the broker/dealer may also share in the profits of the broker/dealer. This affiliation with a broker/dealer creates a potential conflict of interest with clients, to the extent that TSA personnel may be recommending investments from which those same persons may benefit.

Clients have the option to purchase investment products recommended by TSA personnel through other broker/dealers that are not affiliated with TSA. Some TSA personnel receive more than 50% of their total compensation from markups on investments they recommend to TSA clients. TSA advisory fees are not reduced to offset the markups charged to TSA clients by Tri-Star Financial.

Please refer to the section titled "Brokerage Practices" for more information.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

TSA does not charge any of its clients performance-based fees, so this section does not apply.

TYPES OF CLIENTS

TSA provides investment supervisory services and manages investment advisory accounts for:

- Individuals
- High net worth individuals
- Pension and profit sharing plans (other than plan participants)
- Corporations or other business not listed above

TSA recommends a minimum account size of \$250,000. This amount is negotiable depending upon the nature of the relationship, potential for growth and other factors weighed by the associate.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

TSA uses a combination of the following types of analysis in evaluating investments for client accounts:

- **Fundamental**—Analysis of financial attributes of a company, such as revenue growth, debt to equity ratio, inventory turnover, etc.
- **Cyclical**—Analysis based on business, industry, calendar or historical cycles

Investment strategies for separately managed accounts are structured to meet each client's objective. Asset allocation is the major differentiation between strategies. Diversification is accomplished within asset categories by varying sectors, time horizons and income production. Risks vary accordingly, although all accounts are subject to market risk. Investing in securities involves risk of loss that clients should be prepared to bear. TSA places a majority of its client assets in the fixed income market, which traditionally has held less risk than the equity market. In the past few years, credibility of credit rating agencies has been questioned in light of considerable conflicts of interest and state and municipal entities are threatening bankruptcy. Risks inherent in the fixed income market, therefore, have increased.

TSA uses the following sources of information in its analysis:

- Financial newspapers and magazines
- Research materials prepared by others
- Corporate rating services
- Timing services
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Company press releases

DISCIPLINARY INFORMATION

TSA's broker/dealer affiliate, Tri-Star Financial, has been enjoined by a court as a result of a court action taken by a broker/dealer client. This matter settled prior to court resolution. There have been no other disciplinary actions taken against TSA, its personnel or its affiliates to date.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Tri-Star Advisors utilizes the services of Tri-Star Financial for fixed income analysis, support and trade execution. Tri-Star Financial is an affiliated broker/dealer (sharing most of the same owners as TSA), is registered with the U.S. Securities & Exchange Commission and is also a member of the Financial Industry Regulatory Authority (FINRA). Broker/dealer services in fixed income comprise 100% of Tri-Star Financial's business.

Tri-Star Advisors shares office space and overhead with Tri-Star Financial. The expenses associated with this operating environment are incurred by both parties on a hard-dollar basis. Neither firm maintains any soft-dollar relationships. Officers of Tri-Star Advisors are and/or may be officers and/or owners of Tri-Star Financial. Registered Representatives of Tri-Star Financial are and/or may be Advisory Representatives of Tri-Star Advisors and vice versa. In the event TSA places transactions with Tri-Star Financial, TSA personnel may be placing themselves in a material conflict of interest position with TSA clients. As such, all TSA clients are advised in the Investment Advisory Agreement that transactions may be introduced to Tri-Star Financial, and each agreement clearly defines whether that client pays trade commissions or markups to Tri-Star Financial. It is possible, although not likely, that clients may have paid a transaction fee or markup to Tri-Star Financial for a particular investment, and are charged an asset under management fee for that same asset under Tri-Star Advisors. This potential conflict is monitored by the Chief Compliance Officer of Tri-Star Advisors and through compliance training sessions.

Messrs. Payne and Vaughan are officers, owners and registered representatives of Tri-Star Financial and spend approximately 50% of their time on the broker/dealer side of the business. Ms. Durham is also a registered representative of Tri-Star Financial and spends approximately 50% of her time on the broker/dealer side of the business.

TSA also offers insurance products through Texas Annuity Group. These insurance transactions would generate compensation to the selling individual in the form of commissions which presents a material conflict of interest with TSA clients.

A new sub-advisor relationship was initiated in 2010, providing TSA with access to equity management for its clients requiring balanced portfolios.

**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS
AND PERSONAL TRADING**

Code of Ethics

TSA has adopted a Code of Ethics which describes the general standards of conduct that the Firm expects of all Firm personnel (collectively referred to as "employees") and focuses on three specific areas where employee conduct has the potential to adversely affect the client: misuse of nonpublic information; personal securities trading and outside business activities. Failure to uphold the Code of Ethics may result in disciplinary sanctions, including termination with the Firm. Any client or prospective client may request a copy of the Firm's Code of Ethics which will be provided at no cost.

The following basic principles guide all aspects of the Firm's business and represent the minimum requirements to which the Firm expects employees to adhere:

- Clients' interests come before employees' personal interests and before the Firm's interests.
- The Firm must fully disclose all material facts about conflicts of which it is aware between the Firm and its employees' interests on the one hand and client and the Firm's interests on the other.
- Employees must operate on the Firm's behalf and on their own behalf consistently with the Firm's disclosures and to manage the impacts of those conflicts.
- The Firm and its employees must not take inappropriate advantage of their positions of trust with or responsibility to clients.
- The Firm and its employees must always comply with all applicable securities laws.

Misuse of Nonpublic Information

The Code of Ethics contains a policy against the use of nonpublic information in conducting business for the Firm. Employees may not convey nonpublic information nor depend upon it in placing securities trades, either for clients or on their own behalf.

TSA's Personal Trading Policy:

- TSA personnel may not trade in personal accounts in anticipation of trades to be placed for clients.
- TSA personnel may trade in the same security simultaneously with clients (as long as the client obtains the same or better price) or the day after that security was purchased or sold on behalf of TSA clients. [Allowable exceptions in terms of pricing would be bonds, where the client would pay a markup and TriStar personnel would not.]
- TSA requires its personnel to provide transaction confirmations and monthly reporting of their transactions and holdings, which are reviewed by the Chief Compliance Officer to ensure compliance with the Firm's policies.
- TSA personnel must receive pre-approval from the Chief Compliance Officer before participating in an IPO or a Private Placement.

Outside Business Activities

Employees are required to report any outside business activities generating revenue. If any are deemed to be in conflict with clients, such conflicts will be fully disclosed.

TSA executes no principal trades for its clients, although such trades may be conducted by the broker/dealer.

BROKERAGE PRACTICES

Selecting Custodians and Broker/Dealers

Tri-Star requires that its clients select qualified custodians to hold their managed accounts. A qualified custodian is a bona fide financial institution that sends at least quarterly statements directly to its clients. These statements should show all transactions during the reporting period and value of each asset at the period close. Clients are reminded to review their custodian's account statements and compare them to the TSA statements and to report any material discrepancies to both TSA and the custodian.

TSA recommends clients open accounts with Fidelity Institutional or Southwest Securities for the accounts TSA manages. When an account is located with Southwest Securities, Tri-Star Financial, TSA's affiliated broker/dealer, may serve as the introducing broker, effecting trades for clients and collecting the trade fees or markup from the account. TSA has selected Fidelity Institutional as a recommended custodian for its clients because of its discounted commission structure, the range of no-transaction fee assets available, the quality of service and its financial stability.

TSA recognizes its fiduciary duty to attain best execution for its client trades. As a general rule, TSA will select such brokers that can effect transactions at the best price and execution under the prevailing circumstances, as TSA recognizes its responsibility as a fiduciary to attain best execution for its clients. TSA personnel may be putting themselves in a conflict of interest position when directing trades through Tri-Star Financial, an affiliated entity, to which clients may also be paying a commission or markup. Principals of TSA are and/or may be principals of Tri-Star Financial. TSA personnel monitor Tri-Star Financial's pricing to ensure its continued competitiveness with the market. Ancillary services furnished by Tri-Star Financial or its employees to client accounts are not considered in evaluating the competitiveness of the cost of commissions charged by Tri-Star Financial.

Research and Other Soft-Dollar Benefits

TSA has no soft-dollar arrangements in which fees generated by transactions are used directly to purchase products or services to be used by TSA. However, some brokers with which TSA executes trades provide TSA with research without a direct relationship to the amount of trading TSA conducts through them. There may be an incentive to place trades with brokers providing research to TSA, rather than attending only to most favorable execution of trades.

TSA may also receive access to proprietary account management and data transmission services offered by brokers and/or Fidelity Institutional to enable TSA to trade clients' accounts electronically. Fidelity Institutional also may provide TSA with educational and compliance material, such as newsletters and access to seminars and conferences.

Brokerage for Client Referrals

TSA has not directed trades to particular brokers in exchange for receiving client referrals.

Directed Brokerage

Instead of allowing TSA to select broker/dealers for their account, the client may direct TSA (in writing) to use a particular broker/dealer to execute all transactions for the client's account. In that case, the client will negotiate terms and arrangements for the account with that broker/dealer. TSA may be unable to attain best execution for that account and will be unable to aggregate that account with others when aggregating trades.

As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Order Aggregation

When appropriate, TSA may aggregate trades in the same securities across accounts. When such trades are effected, each account pays the same amount for each share. Partially executed aggregated orders will be filled on a pro rata basis. TSA personnel may participate in blocks with clients, but will not receive allocations until all client orders are filled.

REVIEW OF ACCOUNTS

The Investment Portfolio Committee (which consists of William Payne, CEO, Jon Vaughan, President, and Kelly Durham, CCO) reviews each managed portfolio at least quarterly. It monitors the performance of each investment based on how similar investments have performed and recommends changes when necessary. The Investment Portfolio Committee of the firm determines the investment strategies and parameters. Each associate implements this strategy with his/her assigned accounts. Review triggers would include factors such as changes in the economy, changes in the market place or changes in the client's goals or objective.

CLIENT REFERRALS AND OTHER COMPENSATION

Affiliated Brokerage

TSA may effect fixed income securities transactions for its clients though Tri-Star Financial (an affiliated entity) as broker for such parties. Tri-Star Financial acts as a fully

disclosed introducing broker to Southwest Securities, which serves as clearing agent and custodian.

In executing such transactions, it is Tri-Star Financial's policy to charge commissions that are (i) reasonable and fair relative to those charged by other brokers for comparable transactions involving similar securities at that time and (ii) not in excess of the rates Tri-Star Financial generally charges its brokerage clients. This is monitored by TSA personnel including the firm's Chief Compliance Officer.

Tri-Star Financial may purchase from or sell securities to TSA clients and may collect compensation for effecting securities transactions on the behalf of TSA clients. TSA clients may or may not be paying compensation to Tri-Star Financial for its transaction role. As mentioned previously, Tri-Star Advisor personnel who are also registered representatives for Tri-Star Financial may also receive a portion of the commission or markup on trades placed for TSA clients in addition to the management fee charged by TSA on those same assets.

CUSTODY

Custody is defined as an investment advisory firm, its related entities, and/or its personnel having direct access to client funds or securities.

Investment management fees are payable in advance by charging the account directly or by invoicing the client. When the investment management fee is deducted from the client's account, this deduction is deemed a form of custody by the Securities and Exchange Commission pursuant to Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, although all investments and funds are held by a qualified outside custodian. TSA may direct the movement of funds from one account in the client's name to another account with the same title, but has no access to client funds other the fee deduction.

Statements for tax purposes will be provided annually. The client receives monthly statements directly from his/her account custodian showing transactions, income, and asset positions, as well as copies of trading confirmations. When clients receive account statements from their account custodian, clients should carefully review those statements and take the time to compare them with those they receive from TSA. If the client finds significant discrepancies, the client should notify the custodian and TSA immediately.

INVESTMENT DISCRETION

Where clients have designated TSA as agent and limited attorney-in-fact with respect to the client's account, when it deems appropriate, without prior consultation with the client, TSA may:

- Direct the purchase, sale, exchange, conversion, and otherwise trade in stocks, bonds, and other securities including money market instruments.
- Direct the amount of securities purchased, sold, exchanged, and otherwise traded.

- Place orders for the execution of such securities transactions with Tri-Star Financial, Fidelity Institutional, Southwest Securities or other third-party broker/dealers.
- Determine the commission rates paid.

Restrictions include when a client directs specific security transactions, security retention, brokers utilized or the commission rate in a particular account. Any limitations on this discretionary authority are addressed in the Investment Advisor Agreement. Clients may change these limitations at any time.

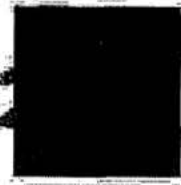
VOTING CLIENT SECURITIES

TSA does not vote client securities for clients. The account custodian for each client sends the proxy material directly to the client. Clients may call their account advisor with any questions concerning a particular solicitation.

FINANCIAL INFORMATION

There is no existing financial condition that is reasonably likely to impair TSA's ability to continue to provide services to its clients.

TRI-STAR
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Jon C. Vaughan, CFA

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March 2011

This brochure supplement provides information about Jon C. Vaughan, CFA, that supplements the Tri-Star Advisors, Inc. brochure. You should have received a copy of that brochure. Please contact Kelly Durham at 713-735-9217 if you did not receive Tri-Star Advisors, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Jon C. Vaughan, CFA, is available on the SEC's website at www.adviserinfo.sec.gov.

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Jon C. Vaughan, CFA, born 1971

Business Background:

Tri-Star Advisors, Inc., President, Principal, Investment Advisor Representative, 2009 – present

Tri-Star Financial, Executive Vice President, Principal and Registered Representative, 1994 – present

Education:

Baylor University, Bachelor of Arts Degree in International Business & Finance, 1993

Chartered Financial Analyst Designation, Awarded 1997

The Chartered Financial Analyst designation, or CFA charter, is a qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis of stocks, bonds and their derivative assets.

To become a Chartered Financial Analyst, an individual must satisfactorily fulfill the following requirements:

- Education – Complete the CFA Program. The curriculum includes Ethical and Professional Standards, Quantitative Methods (such as the time value of money and statistical inference), Economics, Financial Reporting and Analysis, Corporate Finance, Analysis of Investments (stocks, bonds, derivatives, venture capital, real estate, etc.), and Portfolio Management and Analysis (asset allocation, portfolio risk, performance measurement, etc.).
- Examinations – Pass the comprehensive exams required by the CFA Program, which is organized into three levels, each culminating in a six-hour exam. Completing the program takes most candidates between two and five years.
- Experience – Possess a bachelor's degree from an accredited institution (or have equivalent education or work experience) and have 48 months of qualified, professional work experience.
- Ethics – Obligated to adhere to a strict Code of Ethics and Standards governing professional conduct.

DISCIPLINARY INFORMATION

There are no legal or disciplinary events material to a client's or prospective client's evaluation of Mr. Vaughan.

OTHER BUSINESS ACTIVITIES

Mr. Vaughan is an officer and registered representative of Tri-Star Financial and spends approximately 50% of his time on the broker/dealer side of the business.

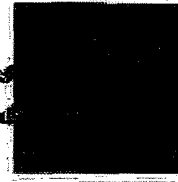
ADDITIONAL COMPENSATION

Mr. Vaughan does not receive any economic benefit from a non-client for providing advisory services.

SUPERVISION

The co-portfolio managers work in concert, and the portfolios are reviewed by Kelly Durham, the Chief Compliance Officer, in terms of the investment objective. Kelly can be reached at 713-735-9217.

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William T. Payne

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March 2011

This brochure supplement provides information about William T. Payne that supplements the Tri-Star Advisors, Inc. brochure. You should have received a copy of that brochure. Please contact Kelly Durham at 713-735-9217 if you did not receive Tri-Star Advisors, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about William T. Payne is available on the SEC's website at www.adviserinfo.sec.gov.

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

William T. Payne, born 1956

Business Background:

Tri-Star Advisors, Inc., Chief Executive Officer, Principal, Investment Advisor Representative,
2009 – present
Tri-Star Financial, President and Registered Representative, 1992 – present

Education:

Santa Monica Junior College, Business Administration, 1976

DISCIPLINARY INFORMATION

There are no legal or disciplinary events material to a client's or prospective client's evaluation of Mr. Payne.

OTHER BUSINESS ACTIVITIES

Mr. Payne is an officer and registered representative of Tri-Star Financial and spends approximately 50% of his time on the broker/dealer side of the business.

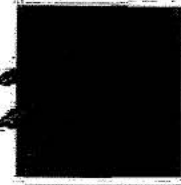
ADDITIONAL COMPENSATION

Mr. Payne does not receive any economic benefit from a non-client for providing advisory services.

SUPERVISION

The co-portfolio managers work in concert, and the portfolios are reviewed by Kelly Durham, the Chief Compliance Officer, in terms of the investment objective. Kelly can be reached at 713-735-9217.

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Kelly Durham

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March 2011

This brochure supplement provides information about Kelly Durham that supplements the Tri-Star Advisors, Inc. brochure. You should have received a copy of that brochure. Please contact Kelly Durham at 713-735-9217 if you did not receive Tri-Star Advisors, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Kelly Durham is available on the SEC's website at www.adviserinfo.sec.gov.

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Kelly Durham, born 1978

Business Background:

Tri-Star Advisors, Inc., Chief Compliance Officer, Investment Advisor Representative, 2009 – present

Tri-Star Financial, Registered Representative, 2009 – present

MDK Financial Group, Portfolio Manager, 2008 – 2009

Morgan Stanley, Associate Wealth Advisor, 1999 – 2007

Education:

University of California Davis, Economics, 1996

DISCIPLINARY INFORMATION

There are no legal or disciplinary events material to a client's or prospective client's evaluation of Ms. Durham.

OTHER BUSINESS ACTIVITIES

Ms. Durham is a registered representative of Tri-Star Financial and spends approximately 25% of her time on the broker/dealer side of the business.

ADDITIONAL COMPENSATION

Ms. Durham does not receive any economic benefit from a non-client for providing advisory services.

SUPERVISION

The co-portfolio managers work in concert, and the work of the Chief Compliance Officer is reviewed by John Vaughan, President. John can be reached at 713-735-9200.

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Jon Swanburg, Esq.

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March 2011

This brochure supplement provides information about Jon Swanburg, Esq. that supplements the Tri-Star Advisors, Inc. brochure. You should have received a copy of that brochure. Please contact Kelly Durham at 713-735-9217 if you did not receive Tri-Star Advisors, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Jon Swanburg, Esq. is available on the SEC's website at www.adviserinfo.sec.gov.

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

Jon Swanburg, Esq., born 1984

Business Background:

Tri-Star Advisors, Inc., Investment Advisor Representative, 2009 – present
Tri-Star Financial, Institutional Specialist and Registered Representative, 2009 – present
Dish Network, Business Development Intern, 2008
Henry Schein, Medical Sales, 2007

Education:

Pepperdine University, Bachelor of Arts Degree in Economics, 2005
Baylor University, Masters of Business Administration (MBA)/Juris Doctor (JD), 2009

DISCIPLINARY INFORMATION

There are no legal or disciplinary events material to a client's or prospective client's evaluation of Mr. Swanburg.

OTHER BUSINESS ACTIVITIES

Mr. Swanburg is not actively engaged in any other investment-related business or occupation.

ADDITIONAL COMPENSATION

Mr. Swanburg does not receive any economic benefit from a non-client for providing advisory services.

SUPERVISION

The co-portfolio managers work in concert, and the portfolios are reviewed by Kelly Durham, the Chief Compliance Officer, in terms of the investment objective. Kelly can be reached at 713-735-9217.