



Item 1 - Cover Page

# *Part 2A of Form ADV*

## *Firm Brochure*

Date Prepared: January 19, 2011

This Brochure provides information about the qualifications and business practices of Kerns Capital Management, Inc. ("KCM"). If you have any questions about the contents of this Brochure, please contact us at (713) 993-0949 and/or [KCM@KernsCapital.com](mailto:KCM@KernsCapital.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.

Kerns Capital Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

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

**Galleria Financial Center | 5075 Westheimer Suite 1177 | Houston, Texas 77056**

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## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated January 19, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Martin Kerns, Vice President and Chief Compliance Officer, at (713) 993-0949 or Marty@KernsCapital.com. Our Brochure is also available on our web site [www.KernsCapital.com](http://www.KernsCapital.com), also free of charge.

Additional information about Kerns Capital Management, Inc. is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with KCM who are registered, or are required to be registered, as investment adviser representatives of KCM.

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## Item 4 – Advisory Business

Kerns Capital Management, Inc. (“KCM”) is an independent, fee-based, SEC-Registered Investment Advisor. The firm was founded in 1994 by Lane Kerns. Mr. Kerns is the firm’s President, Chief Investment Officer and sole principal owner. Marty Kerns is the firm’s Vice President and Chief Compliance Officer.

### Initial Visit

Our greatest desire is to have a continued working relationship with our clients. We are aware that many people are hesitant to engage the services of an investment advisor merely on the recommendation of another person. We also understand that no one wants to be charged for the first visit only to find out they may not need our assistance. Similarly, we have no desire to enter into an advisory agreement unless there can exist a good working relationship between the parties and our services can be beneficial to the client. For these reasons we offer the initial consultation without obligation and at no charge. This gives us both an opportunity to establish some rapport and to address any questions you may have.

### Investment Advisory Services

KCM provides discretionary portfolio management and retirement plan consulting services.

1. **Portfolio Management.** KCM offers active money management services for individuals, high net worth individuals, corporate pension and profit-sharing plans, trusts, foundations, and registered mutual funds.
  - a. **Investment Philosophy.** We believe strong long-term investment results and wealth are best achieved through the avoidance of major losses and the compounding of reasonable gains. If we can miss the majority of major market cycle downturns and capture the majority of major market upturns we will not only protect client assets, but the long-term growth of those assets will be substantially greater than market growth.
  - b. **Investment Strategy.** We employ a flexible investment strategy with the freedom to invest in all asset classes, long or short. We combine fundamental (“bottom-up”) and technical (“top-down”) analysis in seeking to profit from market trends, biases and the future expectations of companies, industries, regions and countries. We use stocks, bonds, exchange traded funds, and no load securities in the management of client assets. Item 8 further describes our Methods of Analysis, Investment Strategies and Risks of Loss.
  - c. **KCM Models Portfolios.** We offer several risk-tolerance based model portfolios, i.e., stable, conservative, moderate and aggressive growth, for client selection and investment. We do not tailor our advisory services to the

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individual needs of clients. Clients generally may not impose restrictions on investing in certain securities or types of securities.

- d. **401(k) and 403(b) Account Management.** We offer investment advisory services to 401(k) and 403(b) participants including advice tailored to the investments in the plan and active account management.
  - e. **KCM Macro Trends Mutual Fund.** KCM is the Investment Advisor to the KCM Macro Trends Fund, a registered mutual fund. The fund is open only to our clients and the clients of other investment advisors.
  - f. **Sub-Advisory.** KCM provides trading signals to other registered investment advisory firms.
2. **Retirement Plan Consulting.** KCM has been advising company retirement plan sponsors in the fulfillment of their fiduciary responsibilities under ERISA since its inception in 1994.

Under ERISA, plan fiduciaries are required to act with the skill, knowledge and expertise of a prudent expert with respect to plan-related decisions regarding investments, service providers, plan administration, and general ERISA compliance issues. If they do not have this expertise they are required to obtain it, or risk personal liability.

KCM offers fiduciary advisory services in all facets of ERISA plan management, including plan design, investment due diligence, vendor searches, fee-benchmarking, employee education and fiduciary guidance.

- a. **Plan Design.** Through our close affiliation with ML Kerns & Associates, LLC, a benefits consulting and third party administrator, KCM is uniquely positioned to help clients design, implement and maintain the right plan for their business and employees.
- b. **Investment Due Diligence.** Choosing and monitoring the appropriate investments to be offered in the plan is perhaps the most serious fiduciary task as it can impact a participant's retirement experience.

ERISA §404(a) charges investment fiduciaries of a qualified plan, such as a 401(k) plan, with the duty to provide a prudent variety of diversified investment options. It also offers fiduciaries a so called "insurance policy" in the form of ERISA §404(c). It states that, by prudently selecting and monitoring the investment options in the plan and complying with the §404(c) requirements, the fiduciary will not be liable for the investment decisions made by the participants. These requirements include the duty to provide plan participants with a broad (well-diversified) investment menu that is consistent with the principals of Modern Portfolio Theory.

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KCM offers independent, ongoing investment analysis to assist clients in this important responsibility. Services include assistance in establishing the plan investment policy statement, recommending and monitoring plan investment options to satisfy ERISA §404(a) & §404(c) requirements, and providing employee investment education.

- c. **Fee Benchmarking and Vendor Searches.** Benchmarking plan provider services, investment opportunities and total plan fees can overwhelm even the most diligent plan sponsor. We shoulder the responsibility of a thorough market analysis, offering guidance and support throughout the process.
- d. **Employee Education & Communication.** We deliver proactive consulting solutions that are comprehensive, compelling and technically proficient. As a result, participants are better informed about asset allocation and risk tolerance, and most importantly better prepared for retirement.

As of January 12, 2011, KCM manages client assets of \$185,972,000, including \$126,816,000 on a discretionary basis and \$59,156,000 on a non-discretionary basis.

KCM does not provide financial planning, legal or tax advice.

## **Item 5 – Fees & Compensation**

KCM charges fees for its investment advisory services that are based on a percentage of the client's total assets under management. Fees are negotiable and therefore may vary by client.

### **Portfolio Management**

KCM's annual fee can range from .5% to 2.5%, with a minimum annual fee of \$1,500.

The percentage of management fee assessed against the account typically depends on the size of the account (assets under management), type of asset class (i.e., stocks, bonds, cash), securities used (i.e., stocks, bonds, mutual funds, exchange traded funds, cash, etc.) and the amount of predicted time devoted to the management process. Fee amounts, including minimum fees, may also differ due to the type of account held by the client, e.g., standard brokerage account vs. company 401(k) retirement account.

KCM uses money market funds and cash defensively and tactically in its management process. Assets invested in money market funds and cash are subject to KCM's management fee.

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## Retirement Plan Consulting

KCM's annual fee can range from .15 to 1.0% of the total plan assets under management, with a minimum annual fee of \$4,000. KCM may charge a flat fee in lieu thereof on a per job basis. The percentage of management fees assessed against the account depends on the size of the account and the consulting services requested.

## Investment Advisory Agreement

The specific manner in which fees are charged by KCM is established in the client's written agreement with KCM.

KCM bills its fees on a monthly or quarterly basis in arrears. KCM's fee is based on the total value of the account on the last day of the management period. Fees are deducted from the client's account whenever possible. Plan Sponsor clients may elect to be billed directly for fees or to authorize KCM to directly debit fees from the plan account.

Accounts initiated or terminated during the billing period will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

KCM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to KCM's fee, and KCM shall not receive any portion of these commissions, fees, and costs, except as described next relating to the KCM Macro Trends Fund.

KCM is the Investment Advisor to the KCM Macro Trends Fund ("the fund") and receives a management fee for its advisory services. KCM may elect to invest all or a significant portion of a client's assets in this fund, in which case any management fee received on a client's assets invested in the fund, less fund platform expenses, will be applied to reduce the regular advisory fee charged the client.

Item 12 further describes the factors that KCM considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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## **Item 6 – Performance-Based Fees & Side By Side Management**

KCM does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

KCM provides services to individuals, high net worth individuals, corporate pension and profit-sharing plans, trusts, foundations and registered mutual funds.

To open an account with us for individual portfolio management services, we typically require a minimum account size of \$250,000. We will aggregate client accounts for purposes of this requirement.

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

### **Methods of Analysis & Investment Strategies**

KCM employs a flexible investment strategy in the management of client assets, meaning we have the freedom to invest globally in companies of all sizes and in all sectors, long or short, and to hold cash.

KCM invests principally in open ended, no load mutual funds (mutual funds), domestic and foreign equity securities (common stock), and exchange traded funds ("ETFs").

We utilize all or parts of a multi-faceted approach in managing assets, including fundamental, technical and quantitative analysis. We generally begin with economic analyses to determine the phase of the business cycle for each major global market segment (a "Segment"). Examples of Segments include the U.S., Europe, Asia and Latin America. We then assess the relative strength of each Segment's currency to the U.S. dollar. Using research and analyses we rank the Segments to determine the market's direction, i.e., "uptrend," "downtrend" or "trading range", and the momentum of the direction. We adjust market exposure depending on how clearly our research reflects the market's direction.

Our next step is to identify individual sectors and/or securities in attractive Segments. We base our investment decisions on a wide array of fundamental and technical factors. Fundamental factors include but are not limited to measures such as earnings growth rates, return on capital and dividend yield. Technical factors include measures such as price performance, volatility and trading volume.

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KCM is the Investment Advisor to the KCM Macro Trends Fund (“the fund”). KCM may elect to invest all or a significant portion of a client’s assets in this fund. The fund employs the investment strategies described. Within this fund, we may also buy or sell securities short or buy inverse ETFs if we believe the value of the security or market segment is likely to depreciate in value. We may also purchase and sell futures contracts, and may purchase and sell options on securities, securities indexes, and futures contracts. These types of investments produce economically “leveraged” investment results. To hedge our short positions, we may buy call options, which give us the right to buy a stock we have sold short at a predetermined price. Similarly, we may sell futures to hedge a portion of our long positions. We employ these additional strategies within in the fund, as opposed to individual accounts, to minimize trading costs and avoid investment minimums.

For more information regarding the investment objectives, risks, charges and expenses of the KCM Macro Trends Fund, please refer to the fund’s prospectus, which can be obtained by calling 1-877-275-5599.

As a part of our investment strategy and during periods in which we have limited market exposure, we may invest in money market funds or other short-term interest-bearing instruments.

### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear.

**Mutual Fund & Exchange Traded Fund Risk.** There are specific risks involved in the management of mutual funds and Exchange Traded Funds which are described in detail in their prospectus. In general, ETFs and Mutual funds expose the investor to the strategy-specific risk of the fund.

**Market Risk.** Stock markets can be volatile. In other words, the prices of stocks can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. Investments may decline in value if the stock markets perform poorly. There is also a risk that the investments will underperform either the securities markets generally or particular segments of the securities markets.

**Portfolio Turnover Risk.** Portfolio turnover refers to the rate at which investments are replaced. The higher the rate, the higher the transactional and brokerage costs associated with the turnover which may reduce the return, unless the securities traded can be bought and sold without corresponding commission costs. Active trading of securities may also increase your realized capital gains or losses, which may affect the taxes you pay.

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**Foreign Risk.** Foreign markets can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from the U.S. market. Special risks associated with investments in foreign companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards.

**Small and Medium-Size Company Risk.** Small and medium size companies may have narrower markets and more limited managerial and financial resources than do larger, more established companies. As a result, their performances can be more volatile and they may face a greater risk of business failure.

**Issuer-Specific Risk.** The value of a specific security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers. The value of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market, or economic developments.

**Short Selling Risk.** Positions (purchases) in shorted securities are speculative and more risky than "long" positions (purchases) because the cost of the replacement security is unknown. Therefore, the potential loss on the short sale is unlimited, whereas the potential loss on long positions is limited to the original purchase price. Any strategy that includes selling securities short could suffer significant losses. Short selling will also result in higher transaction costs (such as interest and dividends), which reduce return, and may result in higher taxes.

**Derivatives Risk.** Investments in futures and options are considered "derivative" investments. A small investment in derivatives could have a potentially large impact on performance. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that the hedging technique will fail if changes in the value of a derivative held do not correlate with the portfolio securities being hedged.

**Put and Call Options Risk.** There are risks associated with the sale and purchase of call and put options. As seller (writer) of a covered call option, assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the option is uncovered, and the Seller must purchase the security at the current market price because the option is exercised, the loss

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could be significant. The buyer of a put or call option risks losing the entire premium invested in the option if they do not exercise the option.

### **Item 9 – Disciplinary Information**

None.

### **Item 10 – Other Financial Industry Activities and Affiliates**

KCM is the Investment Advisor to the KCM Macro Trends Fund (the “fund”), a registered mutual fund. KCM is paid a management fee by the fund for its advisory services. KCM may elect to invest all or a significant portion of a client’s assets in this fund. This practice presents a conflict of interest because it gives us an incentive to invest client assets in the fund based on additional compensation received, rather than client needs. We address this conflict by offsetting, against our regular advisory fee, any amounts earned or otherwise received from the fund, less custodial platform expenses, such that our compensation will not be increased by use of the fund. KCM employs this same offset procedure in company retirement plans that use the fund such that our compensation remains level.

KCM is related by common ownership and management to M.L. Kerns & Associates, LLC (“ML Kerns”), a pension consulting, actuarial and administrative firm. Clients of ML Kerns may receive advice from KCM in the selection and monitoring of plan investments or in the active management of plan assets.

### **Item 11 – Code of Ethics**

KCM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at KCM must acknowledge the terms of the Code of Ethics annually, or as amended.

KCM anticipates that, in appropriate circumstances, consistent with client’s investment objectives, it will cause accounts over which KCM has management authority to effect, or will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which KCM, its affiliates and/or clients, directly or indirectly, have a position of interest.

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As previously described, KCM is the Investment Advisor to the KCM Macro Trends Fund (the “fund”), a registered mutual fund, and receives a management fee for its advisory services. KCM may elect to invest all or a significant portion of a client’s assets in this fund. This practice presents a conflict of interest because it gives us an incentive to invest client assets in the fund based on additional compensation received rather than client needs. We address this conflict by offsetting, against our regular advisory fee, any amounts earned or otherwise received from the fund, less custodial platform expenses, such that our compensation will not be increased by use of the fund. KCM employs this same offset procedure in company retirement plans that use the fund such that our compensation remains level.

KCM’s employees and persons associated with KCM are required to follow KCM’s Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of KCM may trade for their own accounts in securities which are recommended to and/or purchased for KCM’s clients. The Code of Ethics, which prohibits “front running” and provides that trades for the firm and trades for employees of the firm may occur only simultaneously with or after trades are placed for clients in the same security, is designed to assure that the personal securities transactions, activities and interests of the employees of KCM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between KCM and its clients.

## **Item 12 – Brokerage Practices**

### **The Custodian and Brokers We Use**

KCM does not maintain custody of your assets [that we manage/on which we advise], although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab). We are independently owned and operated and are not affiliated with Schwab. The qualified custodian will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use Schwab, you will decide whether to do so and will open your account with them by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so.

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Even though your account is maintained at Schwab, we can still use other brokers to execute trades on your account as described below (see “*Your Brokerage and Custody Costs*”).

### **How We Select Brokers/Custodians**

We seek to recommend a custodian/broker who will hold your assets and execute transaction on terms that are, overall, most advantageous when compared to the other available providers and their services. We consider a wide range of factors, including among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from account (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “*Products and Services Available to Us From Schwab*”)

### **Your Brokerage and Custody Costs**

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but are compensated by charging you commissions or other fees on trades that it executes or that you settle into your Schwab account.

We generally trade no-load mutual funds. There is no commission or fee associated with trading no load mutual funds.

For some accounts, Schwab may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Schwab’s commission rates and asset based fees applicable to our client accounts were negotiated based on the condition that our clients

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collectively maintain a total of at least \$10 million their assets in accounts at Schwab. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be otherwise. In addition to the commission and asset based fees, Schwab charges you a flat dollar amount as a “Prime Broker” or “trade away” fee for each trade that we have executed by a different broker but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How We Select Brokers/Custodians*”).

Client Directed Brokerage. If the client directs that trades be executed through another broker-dealer, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by that broker-dealer. KCM will assume no responsibility for obtaining the “best execution” of your trade.

### **Products and Services Available to Us From Schwab**

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage-trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while other help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis we don’t have to request them) and at no charge to us as long as our client collectively maintain a total of at least \$10 million of their assets in accounts at Schwab.

**Services that Benefit You.** Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit you and your account.

**Services That May Not Directly Benefit You.** Schwab also makes available to us other products and services that benefit us but may not directly benefit you and your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Schwab’s own and that of third parties. We may

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use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

**Services That Generally Benefit Only Us.** Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conference and events
- Consulting on technology, compliance, legal and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment for our personnel.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab, as discussed above. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commission or assets in custody. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our client. Our selection is primarily supported by the scope, quality and price of Schwab's services (see "*How We Select Brokers/Custodians*") and not Schwab's services that benefit only us.

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## **KCM Macro Trends Fund - Soft Dollar Benefits**

Knight Direct, LLC, (“KD”) provides prime brokerage services to the KCM Macro Trends Fund (the “fund”), including trade execution. KCM, in its management of the fund, receives research or other products or services other than execution (“soft dollar benefits”) from KD in connection with security transactions for the fund.

KD, pursuant to its Broker Select client commission program, has established a pool of credits based on commissions for trades routed by KCM for execution by KD on behalf of the fund. The credit rate for executions is \$0.0020 for Equities and \$.50 for Options contracts. KD, at KCM’s request, uses the credits to pay for “research” services as defined in Section 28(e) of the Securities Exchange Act of 1934 that have been or will be used by KCM in the investment decision-making process for the fund.

In the last year, KCM has used these credits to pay for proprietary research created and developed by Ned Davis Research, Inc. and Bloomberg. This research assists us in investment decision-making and trade execution.

When KCM uses brokerage commissions to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products or services. This benefit may provide us with the incentive to select a broker-dealer based on our interest in receiving the research or other products or services rather than on our shareholders in receiving most favorable execution. This is a conflict of interest. We believe, however, that our selection of KC as broker, and receipt of soft-dollar benefits, is in the best interests of the fund’s shareholders.

KCM’s use of the soft dollar benefits received from KD is limited to our management of the fund.

### **Item 13 – Review of Accounts**

Lane Kerns, President, and Martin Kerns, Vice President, review client accounts on a quarterly basis. KCM provides, for accounts with balances of \$100,000 or more, written quarterly reports that include account balance, performance and fee information.

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

KCM may compensate third parties for client referrals. Clients whose accounts are the subject of referral fees will receive full written disclosure, in advance, of the terms of the referral arrangement.

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## **Item 15 - Custody**

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct your broker dealer, bank or other qualified custodian, e.g., Charles Schwab, (collectively called “custodian”) to deduct our advisory fees directly from your account. Your custodian, however, maintains actual custody of your assets. You will receive account statement directly from your custodian at least quarterly. The will be sent to the email or postal mailing address you provided the custodian. You should carefully review these statements promptly when you receive them. KCM urges you to carefully review such statements and compare such official custodial records to the account statements you will receive from us. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 - Investment Discretion**

KCM manages money on a discretionary and non-discretionary basis. Clients opening discretionary accounts are required to execute an Investment Advisory Agree and limited power of attorney that, among other things, grants us authority to manage their assets on a discretionary basis, meaning we have the authority to select the identity and amount of securities to be bought or sold in the clients’ account. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objective for the particular client account.

As mentioned on page 1 above, clients may generally not impose restrictions on investing in certain securities or types of securities.

When selecting securities and determining amounts, KCM observes the investment policies, limitations and restrictions of the clients for which it advises, if any. For registered investment companies, KCM’s authority to trade securities may also be limited by certain federal securities and tax laws.

## **Item 17 - Voting Securities**

KCM does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. . Proxies are mailed to each client directly by Schwab.

KCM votes proxies for the KCM Macro Trends Fund, a registered mutual fund. Clients may obtain a copy of our proxy voting policies and procedures upon request.

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## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about KCM’s financial condition. KCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## **Item 19 – Requirements for State-Registered Advisors**

N/A.

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## Part 2B of Form ADV: Brochure Supplement

### Brochure Supplement – M. Lane Kerns

#### Item 1 – Cover Page

M. Lane Kerns  
Kerns Capital Management, Inc.  
Galleria Financial Center  
5075 Westheimer, Suite 1177  
Houston, TX 77056  
(713) 993-0949  
[www.KernsCapital.com](http://www.KernsCapital.com)

Date Prepared: January 19, 2011

**This Brochure Supplement provides information about M. Lane Kerns that supplements the Kerns Capital Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact Martin Kerns, Vice President, Kerns Capital Management, Inc. if you did not receive the Brochure or if you have any questions about the contents of this supplement.**

**Additional information about M. Lane Kerns is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **M. Lane Kerns**

M. Lane Kerns gives investment advice, has direct client contact and/or has discretionary authority of a client's assets on behalf of the Kerns Capital Management, Inc. ("KCM").

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

Lane Kerns founded KCM in 1994. He is the firm's President and Chief Investment Officer. Mr. Kerns was born in 1941. He majored in Accounting at Wichita State University, received his Chartered Financial Consultant (ChFC) designation from the American College (1982), but does not currently practice as a financial planner, and has a Masters of Science in Financial Services (MSFS) from the American College (1988). He is also the founder of pension companies Compensation Planning, Inc. of Great Bend, Kansas and ML Kerns & Associates, LLC of Houston, Texas. He holds a Series 65 Uniform Investment Advisors License.

The Chartered Financial Consultant (ChFC) is the "Advanced Financial Planning" designation conferred by The American College. The ChFC professional is qualified to assist individuals, professionals, and small-business owners with comprehensive financial planning, including insurance, income taxation, retirement planning, investments, and estate planning. The ChFC curriculum provides the most extensive education of the widely recognized financial planning designations, requiring 10 exams covering financial planning, investments and insurance.

The Master of Science in Financial Services (MFSF) is an educational degree, similar to an MBA, with concentration on personal financial planning, investment and taxation.

### **Item 3 - Disciplinary Information**

None.

### **Item 4 - Other Business Activities**

Mr. Kerns is the founder and President of ML Kerns & Associates, LLC, a pension consulting, actuarial and administrative firm. His activities with this firm provide a substantial (more than 10%) source of his income and involve a substantial (more than 10%) amount of his time.

### **Item 5 - Additional Compensation**

None.

### **Item 6 - Supervision**

The principals of the firm supervise each other's work. The work of Lane Kerns is supervised by Martin L. Kerns, II, Vice President & Chief Compliance Officer, who may be contacted at (713) 993-0949, ext. 107.

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

N/A

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## Brochure Supplement – Martin L. Kerns, II

### Item 1 – Cover Page

Martin L. Kerns, II  
Kerns Capital Management, Inc.  
Galleria Financial Center  
5075 Westheimer, Suite 1177  
Houston, TX 77056  
(713) 993-0949  
[www.KernsCapital.com](http://www.KernsCapital.com)

Date Prepared: January 19, 2011

**This Brochure Supplement provides information about Martin Lane Kerns, II that supplements the Kerns Capital Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact Martin Kerns, Vice President, Kerns Capital Management, Inc. if you did not receive the Brochure or if you have any questions about the contents of this supplement.**

**Additional information about Martin L. Kerns, II is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **Martin L. Kerns, II**

Martin Kerns gives investment advice, has direct client contact and/or has discretionary authority of a client's assets on behalf of the Kerns Capital Management, Inc. ("KCM").

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

Martin Kerns is Vice President and Chief Compliance Officer of KCM. He was born in 1966. Mr. Kerns joined the firm in May 2007. Prior to joining KCM, Mr. Kerns was a partner in the law firm of Beirne, Maynard & Parsons, LLP. He has B.A. in Finance from the University of Texas at Austin (1989) and a J.D. from South Texas College of Law (1992). He holds a Series 65 Uniform Investment Advisors License.

### **Item 3 - Disciplinary Information**

None.

### **Item 4 - Other Business Activities**

Mr. Kerns is Vice President of ML Kerns & Associates, LLC, a pension consulting, actuarial and administrative firm. His activities with this firm involve a substantial (more than 10%) amount of his time.

### **Item 5 - Additional Compensation**

None.

### **Item 6 - Supervision**

The principals of the firm supervise each other's work. The work of Martin L. Kerns, II is supervised by M. Lane Kerns, President of the firm, who may be contacted at (713) 993-0949.

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

N/A

*In the course of our business relationship with you, we collect information about you that is necessary to provide you with our products and services. We treat this information as confidential and recognize the importance of protecting it. This notice is being provided to you pursuant to law so that you will know our policy regarding the information we collect. We value your confidence.*

#### **How and Why We Obtain Personal Information**

We collect and maintain personal information about you to provide you with the products or services you request and to service your account, respond to inquiries from you or your representative or to fulfill legal and regulatory requirement. We may collect nonpublic personal information about you from any of the following sources:

- ◆ From you or your representative on applications or forms (for example, name, address, Social Security number, birth date, assets, and income)
- ◆ From transactional activity in your account (for example, trading history and balances)
- ◆ From other interactions with us (for example, discussions with our customer service staff)

#### **How We Protect Your Information**

To insure your privacy, we employ extensive information protection controls in keeping with industry standards and practices, and we regularly adapt these physical, electronic, and procedural controls to respond to changing requirements and advances in technology. For example, we make extensive use of firewall barriers, encryption techniques and authentication procedures.

Within Kerns Capital Management, we restrict access to information to those who require that access in order to provide services to you. We may share the personal information that we collect about you with the following entities:

- ◆ M.L. Kerns & Associates, LLC, our affiliated service provider, if you request its services
- ◆ Government agencies and law enforcement officials, as required by law (for example, for tax reporting or under court order)
- ◆ Other organizations, with your consent or as directed by your representative

*We do not otherwise disclose any nonpublic personal information about you to anyone.*

#### **Account Access**

For your convenience, we offer several options for accessing your account information. You can review your information independently using your statement, or, for 401(k) accounts, through our automated telephone or Internet services. You may also e-mail, write, or call us with your request for information.

If you decide to close your account or are a former customer, your information is treated in the same manner as the information of current customers.