



## Firm Brochure Form ADV Part 2A

This brochure provides information about the qualifications and business practices of Fruth Investment Management. If you have any questions about the contents of this brochure, please contact us at (713) 464-2283 or at [info@rjfruth.com](mailto:info@rjfruth.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 Fruth Investment Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The term "Registered Investment Adviser" refers to registration with the SEC and does not imply a certain level of skill or training.

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## **Item 2      Material Changes**

Material Changes in the ADV Form Part 2A are defined as important changes to any of the information supplied in the brochure. These changes may affect the client relationship with Fruth Investment Management or may affect a potential client's decision to use our services.

This disclosure applies only to Material Changes since the last annual update of the ADV Part 2A brochure.

There were no material changes made to the ADV Part 2A brochure since the last update.

The last annual update of the ADV Part 2A brochure was 6/30/18.

## Item 3      Table of Contents

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## **Item 4      Advisory Business**

Fruth Investment Management (FIM) provides fee-only, independent, professional portfolio management for individuals and institutions. The company was founded in May 1992 by Richard J. Fruth, president and owner.

Investment portfolios are tailored to each client's unique needs, reflecting investment objectives, risk tolerances, need for liquidity, time horizon, and outside investment positions. Asset allocation (the mix of stocks, bonds, cash) decisions are based on client needs and market conditions. Equity exposure is obtained primarily through individual stocks rather than through mutual funds or ETFs. Treasury, corporate, and municipal bonds may be used to complete the fixed income portion of portfolios as appropriate. Cash is typically invested in money market funds when available from the custodian.

Assets Under Management (AUM) as of 12/31/2019 was \$293,996,313 on a discretionary basis.

## **Item 5      Fees and Compensation**

### Investment Management Fees

Fruth Investment Management charges client fees based on a percentage of the client's assets under management. The annual percentage rates are as follows:

1.00% on first \$500 Thousand to \$5.0 Million

0.75% on next \$5.0 Million to \$10.0 Million

0.50% on all assets in excess of \$10.0 Million

There is a minimum account size of \$500,000. However, the minimum account size is negotiable, especially when the client has multiple accounts under management. Certain clients may pay less than the advertised fee schedule based on client specific circumstances.

Fees are charged quarterly, in advance, at one-fourth of the applicable annual rate. To calculate the fee for each upcoming quarter, we take the value of each account on the last day of the preceding quarter and multiply it by one fourth of the applicable annual rate.

Fees are usually deducted directly from the client's account.

In addition to the management fee paid to Fruth Investment Management, clients may be charged commission fees directly from the broker (usually Charles Schwab) for executing trades. Client should inquire with Fruth Investment Management for latest trade commission rates.

The broker/custodian may also charge fees for other services such as margin expense, insufficient funds, wiring fees, etc.

### Refunds Upon Termination

The client may terminate his or her contract with Fruth Investment Management at any time through written notification. Fruth Investment Management may also terminate the contract in this manner.

At the time of termination, any pre-paid, unearned fees will be refunded to the client on a pro-rated basis. The amount of the refund is calculated as follows: The number of days remaining in the quarter after the termination will be divided by the total number of days in the quarter to obtain the percentage of days to be refunded. The prepaid quarterly fee is multiplied by this percentage to obtain the amount of the refund for each account. These fees may be credited directly into the account or refunded by check.

### Our Compensation

The only compensation Fruth Investment Management receives for our services comes directly from the client through the investment management fees described above. FIM does not receive any form of sales commission on any of the assets purchased or sold in clients' accounts. All investment decisions are made exclusively in the interest of the client.

## **Item 6      Performance-Based Fees and Side-By-Side Management**

FIM does not receive any performance-based fees and does not engage in side-by-side management.

## **Item 7      Types of Clients**

### Clients

Fruth Investment Management currently manages accounts for approximately 189 clients.

### Accounts

Account types generally fall into one of the following categories: Individual, IRA, Foundations, Corporate, and Trusts.

### Minimum Investment

The minimum account size is \$500,000. Alternatively, the client may have multiple accounts which total \$500,000. This minimum account size is negotiable and/or FIM can choose to waive the minimum in certain situations.

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

### Analysis

Methods for analyzing investments include fundamental and technical analysis. Mr. Fruth specializes in technical analysis and is a member of the American Association of Professional Technical Analysts.

## Strategies

Fruth Investment Management specializes in individual stock selection. Bonds, CD's, municipals, government securities, and mutual funds are used when appropriate. Specific allocations and investments for each client are determined by the client's needs, market conditions, and opportunities available.

Investments are generally made on a long-term basis - at least one year. Depending on changes in the market, individual security fundamentals, or the client's needs, investments may be held for shorter periods of time.

## Equities

The equity selection process centers on finding attractively valued companies with below average risk and the potential for long-term price appreciation. Typically, these are large capitalization, domestic stocks of companies with proven track records, but foreign stocks and mid and small capitalization stocks may also be used. The level and expected growth of dividend income is another important factor.

## Fixed Income

Bonds and other fixed income instruments are chosen for clients who wish to reduce overall risk. Factors for selection include the financial stability of issuer, characteristics of issue, outlook for interest rates and compatibility with other assets in the client's portfolio. Most fixed instruments are purchased for periods of less than five years.

## Cash

Cash in portfolios is held in money market funds when available from the custodian.

## Turnover

Turnover of investments averages 10% - 20% per year.

## Risk

Fruth Investment Management does not invest in options, futures, hedge funds or commodities. We do not place trades using margin in any client account.

The goal of Fruth Investment Management is to achieve long-term growth at a reduced level of risk. Portfolios are diversified to reduce as much business, sector, industry and financial risk as possible. However, even with vigilance and precaution, all equity and bond investing inherently involves risk, including that of total loss. Clients are reminded that investing in any security entails risk of loss which they should be willing to bear.

## **Item 9      Disciplinary Information**

Fruth Investment Management is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Neither our firm nor our management personnel has any reportable disciplinary events to disclose.

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

Fruth Investment Management makes every effort to avoid conflicts of interest and to always put the needs of the client first.

Fruth Investment Management is not registered as a broker-dealer.

Fruth Investment Management is not a registered futures merchant, commodity pool operator or commodity trading adviser.

Fruth Investment Management has no material arrangements with any of the following:

- Broker-Dealers, Municipal Dealers, Government Securities Dealers
- Investment Companies or other Pooled Investment Vehicles
- Other Investment Advisors or Financial Planners
- Commodity Pool Operators, Commodity Trading Advisers, or Futures Commission Merchants
- Banking or Thrift Institutions
- Accounting Firms or Accountants
- Law Firms or Lawyers
- Insurance Companies or Agents
- Pension Consultants
- Real Estate Brokers or Dealers
- Limited Partnership Dealers

If an unavoidable conflict of interest should arise in the future, appropriate documentation and disclosure will be prepared and clients will be notified. If possible, measures will be taken to eliminate the conflict.

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

### Code of Ethics

At Fruth Investment Management our first and foremost responsibility is to the client. We are committed to the highest and strictest standards of ethical conduct. Employees are required to abide by all Federal Securities Laws as well as all State Securities Laws in the states where we are registered. To ensure employees act not only in a legal manner, but also in one of honesty, integrity and trust, Fruth Investment Management maintains a company Code of Ethics which outlines the necessary policies and procedures to which employees must also comply. To avoid any conflicts of interest with employees in proxy voting

as well as in trading, no employee shall be permitted to sit on the board of a publicly traded company. This document as well as the company Compliance Manual is available for client review upon request.

### Client Trading

Fruth Investment Management does not recommend to clients investments in which employees have a financial interest.

Fruth Investment Management may recommend to clients common stock investments that employees also own and trade. Employees may trade these investments at the same time as client investments (see below).

### Employee Trading

Fruth Investment Management imposes certain restrictions upon employee trading, including the employee's immediate family members, when the securities being traded are also those recommended to clients. Investment opportunities belong to the client first. This includes a prohibition against *front running*. Under no circumstance will employee trades be placed *before* client trades. Client trades will be made first, or at the same time as employee trades.

### Insider Trading

Insider trading is the illegal use of inside information to buy or sell securities. Inside information (or material non-public information) is defined as any information about a company that has not been generally disclosed to the public, which is likely to significantly affect the market price of the company's securities or is likely to be considered important information to reasonable investors in determining whether to trade the company's securities.

All employees of Fruth Investment Management are prohibited from placing any trades, for client accounts or otherwise, using inside information. Employees are prohibited from engaging in, soliciting, accepting or conveying any information that would be considered inside information.

## **Item 12      Brokerage Practices**

### Recommended Custodians

Fruth Investment Management currently recommends Charles Schwab as the qualified custodian for accounts under management. Schwab is recognized as a leader in servicing the Investment Adviser Industry and provides a superior level of service and reporting. Charles Schwab is also recommended for its low commission rates and effective trade execution. Clients are not required to use Charles Schwab but are recommended to do so.

Individual trades are usually executed through the custodian where the account is held given low trading costs and ease of clearing. To the extent that other broker-dealers may offer better executions, trades may be executed elsewhere on an exception basis.



### Soft Dollar Arrangements

Fruth Investment Management has no soft dollar arrangements with any broker-dealers; that is, the firm does not receive research, services, or perks in exchange for brokerage business.

### Brokerage for Client Referrals

Fruth Investment Management currently does not receive client referrals from any broker-dealer and has no material incentive to recommend a particular broker-dealer.

However, prior to 2007, Fruth Investment Management did receive referrals from Charles Schwab, and still pays Charles Schwab a commission on some of the accounts received through that arrangement. This does not create a current conflict of interest for Fruth Investment Management as no new clients are being referred. (See Item 14 – Client Referrals and Other Compensation).

### Aggregate Orders

When Fruth Investment Management has decided to buy or sell a certain stock (or bond) for multiple accounts at once, a single trade may be placed for the total amount of shares for all of the accounts combined. This is known as an “aggregate” order. After the stock (or bond) is bought (or sold) an average price per share is calculated by the custodian and shares are divided among individual client accounts at the average price. This is a more efficient manner of doing multiple trades and it is also the fairest method, as all clients will pay the same price.

The sale of a position may be aggregated in a similar manner. The order is placed with the custodian to sell all holdings of a given investment, and the total number of shares (or value of the bonds) to be sold is confirmed with the custodian. (Both the custodian and the firm have current records indicating each client’s position in each investment.) To the extent that different prices are obtained, an average price per share is calculated by the custodian, and each client receives the same sale price per share.

Personal employee and family accounts of Fruth Investment Management may be included in the aggregate orders and will receive the same average price. This prevents employee and family accounts from receiving a better price than client accounts.

Trading is not done in an aggregate manner when only a few accounts are being traded or when individual accounts are being traded.

## **Item 13      Review of Accounts**

All accounts at Fruth Investment Management are monitored on an ongoing basis and reviewed in detail at least once a quarter or more frequently if market conditions warrant. Reviews may also occur upon client request. Equity positions are reviewed daily.

All clients receive a quarterly report for each account under management at Fruth Investment Management. This report consists of a holdings statement and a performance statement. The

performance statement includes the Dow Jones Industrial Index performance and the S&P 500 Index performance for comparison purposes. Clients may obtain a statement of realized gains and losses upon request.

All statements from Fruth Investment Management should be reviewed by the client and compared with statements and trade confirmations received monthly from the custodian. (See Item 15 – Custody)

Fruth Investment Management strongly recommends that clients schedule a complete review of their account activities at least annually and whenever there is a significant change in their life circumstances.

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

### Charles Schwab

Prior to 2007 Fruth Investment Management received client referrals from Charles Schwab through Fruth Investment Management's participation in the Schwab Advisor Network. Fruth Investment Management elected to discontinue its participation in this referral program effective December 31, 2006. Fruth Investment Management continues to pay Charles Schwab fifteen percent (15%) of fees received from clients referred by Charles Schwab for some accounts acquired prior to 2007. This does not create a current conflict of interest for Fruth Investment Management as no new clients are being referred.

## **Item 15      Custody**

Invoicing: Fruth Investment Management is deemed to have custody of the funds and securities due to its authority to make withdrawals from client accounts to pay its advisory fee. However, a surprise examination is not required because Fruth Investment Management has written authorization from each client to deduct advisory fees from the account held with the qualified custodian and each time a fee is directly deducted from a client account, we send the qualified custodian an invoice or statement of the amount of the fee to be deducted from the client's account.

Standing Letters of Authority: Fruth Investment Management has been deemed to have inadvertent custody as a result of some clients providing us with Standing Letters of Authorization ("SLOA(s)") to withdraw funds from your portfolio account to pay third parties. Notwithstanding that, a surprise examination is not required as we are relying on the conditions set forth in the No-Action letter issued by the Securities and Exchange Commission on February 21, 2017. Pursuant to the conditions set forth in the No-Action Letter, Fruth Investment Management confirms that (1) the client provide an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed; (2) the client authorizes us, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time; (3) Charles Schwab performs appropriate verification of the instruction, such as a signature review or other method to verify the authorization, and Charles Schwab provides a transfer of funds notice to the client promptly after each transfer; (4) the client has the ability to terminate or change the instruction to Charles Schwab; (5) we have no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the instruction; (6) we maintain records showing that the

third party is not a related party of Fruth Investment Management or located at the same address as Fruth Investment Management; and (7) Charles Schwab sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

The Custodian maintains custody of the client's assets. Therefore, each client must select a custodian and may be required to pay custodian fees. Also, clients will incur brokerage and other transaction costs in the course of our management of their accounts. Clients will receive account statements from one or more qualified custodians covering the funds and securities in their account(s). We encourage our clients to carefully review such statements and compare such official custodial records to the account statements that we may provide.

#### Separate Statements

Client will receive *monthly* statements and trade confirmations from their custodian (Charles Schwab). Clients should carefully review these statements and confirmations.

Client will receive a *quarterly* statement from Fruth Investment Management. Clients should carefully compare the custodian statement (Charles Schwab) with the statement supplied by Fruth Investment Management. Any discrepancies should be brought to the immediate attention of Fruth Investment Management.

## **Item 16 Investment Discretion**

### Trading

Fruth Investment Management has the authority to direct trades in client accounts by a limited power of attorney. The client signs the limited power of attorney with their custodian (Charles Schwab) giving Fruth Investment Management permission to make trades in the account. This is known as discretionary authority.

### Limits

In certain instances, clients may need to place limits on this authority. For example, if the client's place of employment prohibits them from holding certain stocks, they, in turn, would need to prohibit FIM from purchasing these stocks. Clients should make FIM aware of any limits as soon as discretionary authority is granted.

### Non-discretionary

Non-discretionary accounts are occasionally held at client request and for client convenience only.

## **Item 17 Voting Client Securities**

The policy of Fruth Investment Management is to accept proxy voting authority only for those client accounts where a specific written agreement between FIM and the client obligates FIM to do so. In

accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, FIM has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that FIM receives will be treated in accordance with these policies and procedures.

FIM has engaged the services of Broadridge's ProxyEdge platform to vote and maintain records of all proxies.

FIM complete proxy voting policy, procedures, and those of its proxy voting service providers, are available for client review. In addition, our complete proxy voting record is available to our clients, and only to our clients.

Clients should contact the Firm's Chief Compliance Officer, Richard J. Fruth, at 713-464-2283, the phone number on the front of this document, if they have any questions or if they would like to review any of these documents.

## **Item 18      Financial Information**

Fruth Investment Management does not have any financial circumstances to report. Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered.