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Xpotential Inc - Form ADV Part 2
CRD#152793

Investment Advisory Services

2017 Brochure

3/30/2017

This brochure provides information about the qualifications and business practices of Xpotential Inc. If you have any questions about the contents of this brochure, please contact us at 908-273-7600 or iard@xpotential.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.

Xpotential is a Registered Investment Advisor. Our registration as an investment advisor does not imply a certain level of skill or training. The oral and written communication we provide to you, including this brochure, may be used to evaluate us and our services.

Additional information about Xpotential Inc. also is available on the SEC's website at <http://www.adviserinfo.sec.gov/>.

Item 2: Material Changes

The following are material changes from Xpotential's 2016 brochure:

1. New Xpotential logo

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Item 4: Advisory Business

4A Firm Description

Xpotential Inc. ("**Xpotential**", "we", "our", or "us") is a New Jersey corporation founded in 1998 and located in New Providence, NJ. Xpotential is employee owned and managed by [Vincent J. Schott](#) and [Daniel J. O'Donnell, CFA](#). **Xpotential** has been registered as an Investment Advisor since 2010. **Xpotential** performs investment advisory services to individuals, small businesses, estates, trusts, profit sharing plans, and other organizations. Investment advisory business is Xpotential's primary business. Xpotential's secondary business is Executive Search services for U.S. and foreign Corporations and business entities.

4B – Types of Advisory Services

Xpotential's advisory services are portfolio management services under separately managed investment accounts. We manage accounts on a discretionary basis, which means our clients authorize us to trade securities within their accounts at our sole discretion, but based upon the objectives of the client. We do not provide services on a non-discretionary basis.

Xpotential specializes in managing globally diversified, low-cost, and well-balanced portfolios. Xpotential primarily manages these portfolios tactically, that is, the balance or allocations of the asset classes shifts over long period of time in an attempt to avoid risk during economic contractions and increase risk during economic expansions. Xpotential also provides Strategic Asset Allocation with rebalancing. Both tactically and strategically managed portfolios are constructed using the same investment selection criteria.

4C – Client Tailored Relationship and Restrictions

Client portfolios are constructed mainly of low cost index funds or ETFs representing major asset classes of equities, fixed income, commodities, real estate, hard assets, and cash. Portfolios are tailored to client's investment objectives, liquidity needs, overall financial picture, time horizons, risk tolerances, and return objectives using modern portfolio theory and fundamental analysis of asset classes to determine target portfolio weightings. Quantitative methods are applied to the portfolio's components as part of a risk management system in an attempt to increase the risk adjusted return of the total portfolio. Strategic Asset Allocation portfolios are rebalanced back to a more consistent asset allocation target.

The investment management strategies of Xpotential are formulated, managed, and executed by the investment committee. The investment committee consists of Daniel O'Donnell and Vincent Schott.

Xpotential has full discretion on selecting securities to compose the portfolio. Clients may request restrictions of selections of securities and Xpotential will consider these desires. But Xpotential reserves the right to decline and, if necessary, terminate the

advisory relationship if we feel the client restrictions would impact the ability of us to maintain the client's investment strategy.

4D – Wrap Fee Program

None. Xpotential does not sponsor a wrap fee program.

4E – Assets Under Management

Xpotential's client assets under management are approximately \$20,000,000. All these assets are managed on a discretionary basis.

Item 5: Fees and Compensation

5A - Fee Schedule

Xpotential's compensation for its portfolio management services is an **annualized 1% fee** of the market value of the net assets under management. Strategic Asset Allocation is provided at **0.5% annualized fee**. **Xpotential** requires a minimum fee of \$1000 annualized. Our fee is negotiable and may have exception, but typically is standard across all accounts.

5B - Billing Method

An annualized 1% fee is calculated and applied by the Custodian (Interactive Brokers, LLC. or “**IB**”) daily and the fee is payable at the end of the daily period. Fees are charged only on days that securities markets are open. Clients activate the automatic payment of advisor fees by the Custodian through their “Account Management” secure web interface on the custodian broker dealer website. Clients have the capability to terminate the automatic advisory fee payments via "Account Management" on the custodian website.

For example, if there are 250 trading days in the calendar year, then the 1% fee will be applied at a rate of 1% / 250 days or 0.004% at the end of each trading day and deducted from the clients account.

5C – Other Fees and Expenses

All brokerage commissions and fees, stock transfer fees, and other similar charges incurred in connection with transactions for the account are in addition to the investment management fees paid to **Xpotential**. We describe additional information about brokerage in [Item 12 - Brokerage Practices](#).

Additionally, Mutual Funds and ETFs have their own fund-related fees and expenses that are described in the prospectus of the mutual fund or ETF. Xpotential takes very seriously our fiduciary duty to monitor, manage, and minimize, when prudent, all other fees and expenses.

5D – Refund of Advisory Fees

Xpotential does not require or accept investment management fees in advance, nor are investment management fees accrued to the end of month or end of quarter. Advisory fees are reconciled and settled daily.

Client may cancel advisor agreement within 5 business days of execution and all fees will be refunded. Either party may terminate the agreement with a minimum of 30 days notice to the effective termination date. Fees will be assessed up to the effective termination date.

5E – Commissions on Investment Products

Xpotential does not accept any compensation or commission in connection with the management of client accounts. The sole source of revenue for Xpotential's advisory business consists of the Advisory fees paid by clients as stated above ([section 5A](#)). Advisors are free of conflicts to select the best securities available for clients as their sole source of compensation comes from their clients.

Item 6: Performance Base Fees and Side-by-Side Management

None. Xpotential is not compensated on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of the client.

Item 7: Types of Clients

Xpotential offers portfolio management services to individuals, high net worth individuals, individual retirement plans, trusts and estates, private corporations and endowments. Xpotential does not have a minimum account size, but does impose a minimum annual fee amount of \$1000.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

8A – Methods of Analysis and Investment Strategies

Xpotential surveys many globally available asset classes using fundamental analysis of expected risk/returns profiles. These global asset classes generally consist of market capitalization/free-float weighted indexes representing various large portions of the global economy. Xpotential uses many information sources to research asset classes, associated indexes, and appropriate securities representing those indexes. Many of these sources are available on the web and include sites like Morningstar, Edgar, Vanguard, iShares, etc... along with many articles and research papers from sources like the Federal Reserve, SSRN, Journal of Financial Planning, CFA Institute, etc.

Xpotential determines target asset allocations according to expected risk/return portfolio contributions, but also in accordance with the client's individual situation ([Section 4C](#)) including investment objectives, time horizon, risk tolerance, tax situation and liquidity

requirements. As such, client's portfolio allocations and securities may be different or similar based on their individual objectives.

Xpotential applies tactical asset allocation to client portfolios. This means Xpotential attempts to change the balance of the portfolio in response to economic cycles. The goal is to move the balance of the portfolio towards lower risk asset classes at the first signs of a recession. Then move the allocation towards higher risk asset classes at the first signs of an expansion.

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

8B – Material Risks Involved with this Strategy

There is no guarantee Xpotential will perform the tactical re-balancing properly and/or at the right times. Bad timing by Xpotential could result in a client portfolio being over weighted in high risk assets during a severe market correction, resulting in severe portfolio losses that may be greater than the client's risk tolerance. This tactical asset allocation strategy does not account for "event risk" or severe market declines due to such things as nuclear war, natural disasters, etc. There are an infinite number of possible events that could instantly impact the prices of risk assets. Xpotential could have a "higher risk" tactical allocation in place resulting in a potentially greater than risk tolerance decline in portfolio market value.

8C – Material Risks Involved with Securities

All investments include a risk of loss. Performance of any investment is not guaranteed. We select securities and asset classes with a goal to minimize the risk of loss. However, there is a risk of loss of the assets we manage that may be out of our control. We use our best efforts to manage your assets, however we cannot guarantee any level of performance. We cannot guarantee that you will not experience financial loss.

Item 9: Disciplinary Information

None.

Item 10: Other Financial Industry Activities and Affiliations

Xpotential is a completely independent investment advisor. We have no affiliations or professional relationships with other financial professionals or institutions. We receive no compensation or benefit from any sources other than our clients.

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

11A - Code of Ethics

Xpotential has adopted the [CFA Institute Code of Ethics and Standards of Professional Conduct](#). A copy of the this code can be downloaded by clicking this:

https://www.cfainstitute.org/Translations%20of%20Code%20of%20Ethics%20and%20Standards%20of%20Pr/english_code.pdf

The Code and Standards are enforced through an active professional conduct program and require that we:

- Place our clients' interests ahead of our own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve professional competence
- Disclose any and all conflicts of interest or legal matters

11B – Conflicts with specific Securities

Xpotential and employees do not have material interests in securities held in client accounts. Client securities are generally securities that track the worlds most popularly traded indexes. We have no material interests or preference in any particular fund family or offering institution (Vanguard, iShares, State Street, etc...). We simply choose the best security product available for our desired index.

11C – Conflicts on recommended Securities

Xpotential's staff purchases the very same securities that they recommend to clients for their own portfolios. When possible, Xpotential smoothes entry and exits of positions using techniques analogous to Dollar Cost Averaging (DCA) over multiple days, for both clients and employees. This is done to minimize trading risk and price volatility to achieve a better average purchase price. Xpotential averaging algorithm executes in a manner that minimizes any additional commissions for these multiple trades.

11D – Conflicts on Buys or Sells of Securities

Xpotential will aggregate trades of same securities over multiple client accounts when possible. Xpotential's custodian appropriates the shares and commissions proportionally and at same average price, for each trade, across accounts. Aggregating trades usually nets lower commission cost and better execution than separate trading. **IB** automatically controls the allocation process at trade execution – there is no manual post trade allocation process allowed. Client account trades are executed ahead of employee trades. If the trade aggregation feature were to become disabled, then Xpotential would rotate the order of client trades to maintain fairness.

Item 12: Brokerage Practices

12A – Factors determining Broker/Custodian

Xpotential considers several factors on Broker/Custodian selection:

- A robust Advisor Platform allowing trade aggregation is essential
- Security – proven high level of secure electronic access and systems
- Daily reconciliation of Accounts with Daily Statements for clients
- Low total cost of both commissions and trade execution.
- Highly automated systems requiring minimal human intervention
 - Automated delivery of electronic statements (daily, monthly, yearly)
 - Automated electronic money/position transfers
 - Automated Account Billing and Payment of Advisor Fees
- Access to a large universe of products
 - Stocks, Bonds, Mutual Funds, Options, Futures, Forex
- Direct access (market maker) to most exchanges
- Financial strength

Xpotential has one custodial option - Interactive Brokers LLC ("**IB**"). The client is required to open the custodial account at **IB**. **IB** was selected due to their advanced technology and low costs. This includes their breadth of product offering, ultra low commissions, superior trade execution, portfolio margin offering, advisor technology platform, daily account reconciliation, and investment grade credit rating.

12A1 – Research and other Soft Dollar Benefits

None. Xpotential does not receive any soft dollar credits, compensation, or any other economic benefit from **IB** other than use of their trading and reporting systems for the benefit of our mutual clients.

12A2 – Client Referrals from Brokerage

None. Xpotential does not receive client referrals from **IB**.

12A3 – Directed Brokerage

None. Xpotential does not allow directed brokerage. Brokerage is done through **IB**.

12B – Aggregation of Trades

When possible, Xpotential aggregates orders across client accounts to minimize commission cost and enable more efficient trading execution of small lots when aggregated (see [section 11D](#))

Item 13: Review of Accounts

13A – Periodic Review of Accounts

Generally, under normal conditions, review occur at least monthly and rebalancing occurs as required. The assigned Investment Advisor Representative performs monthly reviews. Additionally, reviews are requested on an annual basis with the client to update

and/or reconfirm client's on-going needs and objectives. Xpotential's management team reviews all accounts annually, subsequent to the annual client update review.

13B – Other than Periodic Review

All accounts are monitored on an on-going basis and are rebalanced based on cash flows and changes in market or client conditions as warranted. Additionally, clients may request an account review at any time.

13C – Reports

IB generates client account statements on a daily, monthly, quarterly, and yearly basis. They are available electronically from **IB** via web (Account Management) or can be automatically emailed as configured by the client. Statements are generated in HTML or PDF formats for downloading and printing. Statements show the net asset value of each account along with an itemized summary of all transactions including interest, dividends, trading executions, commissions, and any advisor or custodian fees. Clients can also choose to receive these statements daily or choose to receive statements on days only when transactions occur. Clients generally have continuous access to their current account information through the custodian's "Account Management" access on their web site. Clients also receive a quarterly account statement via postal mail from **IB**.

Additionally, clients will receive a quarterly account statement electronically from Xpotential summarizing account activity, performance, and advisor fees.

Item 14: Client Referrals and Other Compensation

14A – Economic Benefits Provided by Third Parties

Xpotential receives no economic benefit from any other sources other than it's clients in it's advisory business.

14B – Compensation to Non-Advisory Personnel for Client Referrals

Xpotential does not currently utilize solicitors.

Xpotential does not have any agreements or formal referral arrangements with individuals or companies. If we do refer clients or prospective clients to professionals for other needs (legal, accounting, etc.), it will be done for the best interest of the client and we expect no reciprocation.

Item 15: Custody

Xpotential has limited, if any, custody of client funds or securities, when clients authorize **IB** to automatically pay our investment management fees directly from their accounts.

Only the client can activate this feature by executing an agreement with Interactive Brokers. The client can also deactivate this feature by contacting **IB** directly.

In addition to receiving statements electronically directly from **IB** on an as desired basis (daily, monthly, or activity based), currently, **IB** also sends a quarterly statement via postal mail directly to clients.

Item 16: Investment Discretion

Clients give Xpotential limited power of attorney to manage the contents of their accounts by executing the Xpotential Advisory Agreement. Clients also give **IB** the authority to give Xpotential access to their account and pay advisory fees to Xpotential in an “Interactive Brokers LLC agreement”.

Item 17: Voting Client Securities

Xpotential does not vote client proxies. **IB** will send proxies directly to clients for execution. As always, clients may contact Xpotential with any questions regarding client security solicitations.

Item 18: Financial Information

18A - Prepayment of fees.

None. Xpotential does not solicit prepayment of fees and is not required to provide financial information.

18B – Financial impairment

None. Xpotential does not foresee any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients under our Investment Advisory Agreements.

18C – Bankruptcy

None. Xpotential has been in business since 1998 and has never been subject to a bankruptcy petition, nor have any of the principals.

Item 19: Requirements for State-Registered Investment Advisers

19A – Principal Officers of Xpotential

Daniel J. O'Donnell, CFA

Daniel J. O'Donnell, born 1962, is President, Managing Director, and 50% shareholder in **Xpotential**. O'Donnell has been designing and managing client portfolios since 2009 at Xpotential. O'Donnell earned the Charter Financial Analyst (CFA) designation in 2014, passing all three levels of the CFA required tests the first time in under 3 years.

O'Donnell received a BS in Electrical Engineering from Lehigh University in 1984. From 1983 to 1986 O'Donnell worked for RCA Microelectronics designing integrated circuits, software and technologies that automated the design of integrated circuits. From 1986 to 1994 O'Donnell worked for Zycad. Zycad provided hardware simulation accelerators to most of the world largest computers' designers and manufacturers. From 1995 to 1999 O'Donnell worked for Synopsys Inc. in Sales management roles. Synopsys introduced synthesis software that revolutionized the way integrated circuits and microprocessors are designed today. O'Donnell founded **Xpotential** along with Mr. Schott in 1998 and O'Donnell has been a Managing Director with **Xpotential** 1999 to present. In addition to the primary business of Investment Advisory services, **Xpotential** performs executive search and recruitment for corporate and business entities in the technology space.

Vincent J. Schott

Vincent J. Schott, born 1961, is Secretary, Managing Director, and 50% shareholder in **Xpotential**. Mr. Schott has passed the Level I test in the CFA Program. Schott received a BS in Electrical Engineering from Polytechnic University, Brooklyn in 1984. From 1984 to 1989 Schott worked for Singer Kearfott designing inertial navigational systems and associated integrated circuits. From 1989 to 1993 Schott worked for Zycad. Schott started as an application engineer and finally in a sales and business development role. From 1993 to 1999 Schott worked for Quickturn Design Systems in Sales management roles. Quickturn Design Systems provided revolutionary hardware emulation systems to the worlds leading microprocessor designers and manufacturers. Schott founded **Xpotential** along with O'Donnell in 1998 and Schott has been a Managing Director with **Xpotential** 1999 to present.

19B - Other Business Activity

Xpotential's secondary business has been Executive Search service for U.S. and foreign Corporations and business entities. **Xpotential's** client base is broad and varied, but with a strong focus on technology. Executive search clients consists of one of the world's largest microprocessor companies down to many small VC funded startups that require talent so specialized and limited that they have to actively target and recruit it. Searches are performed by **Xpotential's** Managing Directors from their offices in New Providence, NJ during business hours and off business hours.

Xpotential's Investment Advisory business constitutes a fiduciary duty to advisory clients, whereas Xpotential's Executive Search business does not. This means Advisory activities are prioritized ahead of Executive Search activities.

Xpotential spent approximately 2/3 of total hours worked on the investment advisory business in 2016 and anticipates this rate increasing in 2017.

19C – Performance Based Fees
None.

19D – Material Adverse Events

None.

19E – Relationship with Issuer of Securities

None.

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