

Portfolio Capital Management, Inc. – ADV Part 2A Brochure

Sec File Number: 801-16379

March 15, 2011

Address: 5950 Fairview Rd. Ste. 610 Charlotte, NC 28210 (704) 552-0073

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ADV Part 2A– Brochure

This brochure is written in accordance with the new Part 2 of Form ADV amendment that became effective October 12, 2010. Neither the SEC nor any state securities authority has specifically approved or verified this Brochure. Registration of an investment adviser does not imply that the adviser possesses a certain level of skill or training. Additional information about Portfolio Capital Management is also available on the SEC's website at www.adviserinfo.sec.gov.

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Item 1 – Material Changes

This brochure provided by Portfolio Capital Management dated February 28, 2011 replaces Part II of Form ADV dated March 30, 2010. There are no material changes to this current edition of the Part II of Form ADV with the exception of a new format “in plain English.”

Item 2 – Advisory Services

Portfolio Capital Management, Inc. (hereafter known as “PCM”), founded in 1981, is a registered investment adviser that provides investment advisory services to individuals/families, pension plans, charitable foundations, trusts, and bank trust departments. PCM also provides investment advice and analytical support to individual and institutional clients who manage their own portfolios. Furthermore, we participate in wrap fee programs by providing management services for these accounts; however, we manage these accounts no differently than other accounts. We do receive a portion of the wrap fees for our advisory services.

On an occasional basis, PCM may provide our clients or prospective clients some retirement planning (i.e. calculating how long retirement assets will last). We do not charge our clients any fees for this specific service and believe it is included in our overall advisory service to the client.

Advisory services are provided by the principal owners of PCM: Marc Durica, CFA, James A. Bailey, CFP[®], and Robert G. Fontana, CFA. Additional information regarding these owners is located in Item 17.

There are six different portfolio management styles offered: Large Cap Core, All-Cap Growth, Enhanced Yield, Fixed Income, Balanced, and Mutual Fund Allocation. These styles are described further in Item 6.

Item 3 – Fees and Compensation

With the exception of bank trust departments, PCM charges clients an annual fee taken quarterly for services rendered as follows:

- 1) Quarterly fees are payable in the month following the account’s quarter end.
- 2) The value of the assets in an account on the last business day of the calendar or fiscal quarter determines the quarterly fee. PCM bills for the quarter in advance.

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- 3) Quarterly fees are calculated on a percentage of the value of assets managed. PCM's standard rate is 1.0% on the first \$1,000,000 in assets, 0.75% on the next \$4,000,000 and anything over \$5,000,000 is considered negotiable. Exceptions and fee rates may be adjusted on an account-by-account basis. Clients may also choose to either pay their quarterly fee directly to PCM or to have it deducted from their account.

Minimum account size is normally \$250,000; however, it is possible to make exceptions. Clients invested in mutual funds may be subject to two separate advisory fees, one fee to PCM on mutual funds managed and the other to the actual mutual fund portfolio managers. Furthermore, additional fees may be charged by the mutual fund managers to the clients invested in mutual funds, including administrative fees and 12b-1 fees.

Clients not referred to PCM by a broker may choose which broker/dealer will maintain custody of their account. Non-wrap accounts may be charged a small commission fee by the broker/dealer for purchase and/or sale of securities.

PCM seeks to provide complete transparency with regard to fees. Each client receives a fee statement in a quarterly package. Clients may add funds or securities to their accounts, withdraw funds or securities from their accounts, or close their accounts at any time. There are no lock-up provisions.

Fees paid in advance are refunded pro-rata as standard account closing procedures at PCM. Accounts established during the quarter are invoiced on a pro-rata basis based on the number of days the funds were actually managed during that quarter. Accounts will be charged fees no more than six months in advance.

The principal owners (supervised persons) of PCM may accept compensation from Caritas All Cap Growth Funds in which they are also principal owners and supervised persons. This relationship presents a conflict of interest and gives the supervised persons an incentive to recommend the mutual fund. If PCM recommends the Caritas Mutual Fund to their clients, PCM fully discloses the relationship between the two firms. PCM will only recommend the "load waive" share of the mutual fund to its clients. The recommendation for purchase of the fund falls in line with other investments in the portfolio and does not receive an over-weighted position within the portfolio. We also advise the clients that they have the option to decline the purchase recommendation. PCM excludes the amount that is invested in the Caritas All Cap fund from its overall fee to the client.

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Item 4 – Performance-Based Fees and Side-By-Side Management

This section is not applicable to PCM as it does not participate in either of the referenced practices.

Item 5 – Types of Clients

Most of PCM's clients are individuals and families, many having maintained accounts with PCM for several years. PCM manages portfolios and provides advice for pension plans, charitable foundations, and trusts. PCM also contracts with trust department of banks and other financial institutions for purposes of rendering investment advice. Most of the portfolios are managed on a non-discretionary basis.

Item 6 – Methods of Analysis, Investment Strategies, and Risk of Loss

Typical Investments for PCM include common stocks issued by domestic and foreign companies that are traded on U.S. exchanges, U.S. Government securities, bonds issued by domestic and foreign companies, and preferred stocks issued by domestic and foreign companies. Other investments could include municipal securities, certificates of deposit, commercial paper, warrants, and mutual fund shares.

PCM employs a wide range of methods to evaluate investments including fundamental analysis, technical analysis, charting, and analysis of the overall economic and market conditions. PCM also reviews sector, industry, and product cycles and trends. In addition, PCM incorporates Growth At a Reasonable Price (GARP) in the investment evaluation.

Typical sources of information include company earnings calls, SEC filings, financial news located on company websites, quotations services, financial data providers, and other analyst research reports. On occasion a portfolio manager of PCM may have a meeting with top level management of select companies.

The primary investment strategies of PCM are summarized below. Clients should be aware that investing in securities always involves a risk of loss.

Large Cap Core / Equity - Our equity investment philosophy utilizes a value and earnings growth momentum approach. Our financial computer program screens over 1,000 companies to help identify potential investments. Securities available for purchase have the following characteristics: a low relative Price to Earnings ratio, strong financial quality, above average historical and future growth rates,

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low debt to equity, and a high probability of price appreciation because of current earnings momentum. PCM is a large and mid-cap growth investor with a strict limitation on the allowable Price to Earnings ratio.

Fixed Income - Our fixed income investment philosophy is designed to provide positive rates of return in various economic environments as well as reduce the volatility in large portfolios by seeking a more conservative investment mix. Portfolios are structured in the 1 - 10 year maturity range with an emphasis placed in the 3 - 7 year maturity sector. The maturity structure of the portfolio is adjusted based on our interest rate outlook. This philosophy has been in place since 1981 and has consistently generated positive rates of return.

All Cap Growth – PCM's All-Cap Growth Portfolio seeks primarily capital appreciation and, secondarily, increasing dividend income by investing in common stocks that trade on US exchanges.

The PCM All-Cap Growth Equity Portfolio tries to strike a balance between strong earnings and good value. Accordingly, the stocks in this portfolio typically take one of two broad forms: (a) stocks of companies that appear to have favorable, yet undervalued, prospects for earnings growth and price appreciation and/or (b) stocks of companies that are only temporarily out-of-favor and have some potential catalyst for growth. We seek to identify stocks with attractive risk/reward characteristics, which might result in some investments that are outside of the two broad forms noted above. We may also temporarily invest in exchange traded funds (ETF's) during periods of repositioning the portfolio or to seek to preserve capital during periods of market volatility. While mindful of tax implications, we do not manage this portfolio for tax efficiency.

Enhanced Yield – PCM's Enhanced Yield Portfolio seeks above average dividend yield, defined as twice the current yield of the S&P 500 while seeking a competitive total return comprised of dividend yield and price appreciation. The portfolio is invested in mid to large capitalization common stocks that trade on US exchanges.

The PCM Enhanced Yield Portfolio seeks to achieve an above average dividend yield in a well diversified portfolio of stocks with the potential for future growth of share price and dividends. The portfolio will invest in all major economic sectors as defined by the S&P 500 Composite which will enhance the potential for competitive total returns. This portfolio seeks to obtain an initial dividend yield of twice the S&P 500. The Enhanced Yield Portfolio seeks a balance between

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current income and growth. The portfolio will consist of high quality companies with long records of paying consistent and growing dividends.

Balanced – The balanced portfolio takes the appropriate investment objective signed by the client and utilizes a combination of the Fixed Income strategy and whatever equity strategy previously described that best meets the client's investment needs and chosen objective.

Mutual Fund Allocation – The mutual fund allocation portfolio is designed for those accounts that are not large enough to own individual securities. The areas in which this strategy invests are Large Cap, Mid Cap, Small Cap and International equities. This strategy utilizes multiple mutual funds to generate an allocation that appropriately diversifies the client's portfolio.

We would like to reiterate that investing in any of the previously described strategies includes an inherent risk of loss that each client should be prepared to bear.

Item 7 – Disciplinary Information

PCM has not been involved in any type of disciplinary rulings in the history of the firm.

Item 8 – Financial Affiliations

Members of PCM also act collectively as the investment adviser to Caritas Capital LLC, a registered investment company serving as the investment adviser to the following open-ended mutual fund: Caritas All Cap Growth Fund. Any PCM client who is invested in the fund is made fully aware of the relationship between PCM and Caritas Capital.

PCM may from time to time recommend to a client or prospective client a broker dealer to custody their assets. PCM does not receive compensation from any broker it recommends.

Item 9 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

PCM adheres to the Advisers Act Rule 204-1 which requires Registered Investments Advisers to maintain and enforce a written code of ethics that satisfies the requirements of this rule. A copy of the code of ethics is available on request.

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Personal investment activities by PCM employees are consistent with the general fiduciary principles that apply to PCM as an investment manager for its clients, including 1) at all times, the duty to place the interests of the firm's client first; 2) the requirement that all personal securities transactions be conducted consistently with the code of ethics and in a manner that avoids actual or potential conflicts of interest or abuses of an individual's trust or responsibility; and 3) the fundamental standard that PCM employees should not take inappropriate advantage of their positions.

In all events, the client's best interest will have priority over any interest of the adviser.

Item 10 – Brokerage Practices

In the case of institutional clients, PCM advisers may determine the distribution of the brokerage business. The adviser is obligated to obtain the best execution price for the trade of securities on behalf of its clients and it is the policy of the adviser to use its best efforts to obtain the best security price available.

For non-institutional clients, the clients may designate the registered representative and brokerage firm through which transactions will be executed, indicating the choice on the investment agreement. The adviser will attempt to negotiate more favorable commission rates for the clients than those that might otherwise be obtainable as a non-institutional client.

In an attempt to gain more favorable commission rates, PCM may group or "bunch" trade orders. Those clients participating in the aggregated order will receive an average share price and share in the transaction costs on a pro-rata basis. In some cases, institutional clients are more likely to receive more favorable commission rates because of significantly larger block and volume size of their trades.

PCM does not pay a brokerage commission on institutional accounts in excess of that which another broker might have charged for the same transactions in recognition of the value of the brokerage or research services provided by the broker. Clients will be notified of all transactions through statements and confirmations furnished by the broker/custodian rendering such brokerage services. Furthermore, transactional reports along with reports detailing current holdings, cost and current market value data will be provided by PCM on at least a quarterly basis.

In the normal course of executing security transactions for clients, PCM utilizes commissions to pay for some research products and services ("soft dollar benefits") rather than producing or buying the research and services. These transactions may be generated in part or whole through various brokerage firms. The services that follow

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could in part be paid for with commission dollars: Axys Portfolio Review, BaseLine Financial Services, Interactive Data Corp., Morningstar, Barclays Bond Indexes, RGF Investments, LLC., Egan-Jones Proxy Research, and Crandall Pierce Chart Reviews. The previous list is not meant to be inclusive, but to indicate the type of services received with commission dollars. The services benefit all clients and the research acquired is used to maximize investment results; however, not all clients pay with commission dollars from these accounts. In addition, annual commission reports for an individual client are available upon request.

In selecting or recommending broker-dealers, PCM does not consider whether client referrals to PCM are reciprocated. Further, PCM does not routinely recommend, request or require that a client direct the advisers to execute transactions through a specified broker-dealer.

PCM typically allows their clients to direct brokerage of their accounts. During this process PCM explains the expected costs associated not only with the clients' preferred broker but the other available brokers as well.

Item 11 – Review of Accounts

The management team meets on a weekly basis to review all investments and to discuss portfolio status. The review is conducted both by security and portfolio. Specific attention is paid to securities having a significant fundamental change in outlook or where other information may indicate a major change is occurring. The management team monitors price changes and published financial information as reported on securities held in client portfolios. In addition, matters discussed include the portfolio's investment objective, tax consequences and recent discussions with the clients concerning their risk tolerance and objectives. If action is required, the management team will immediately conduct a review of all accounts as described above. The management team consists of the president, vice president, and the director of research. Other personnel may be invited to the meeting if management deems their knowledge and expertise to be appropriate and necessary.

Item 12 – Client Referrals and Other Compensation

PCM does not provide nor receive any compensation for client referrals.

Item 13 – Custody

PCM does not maintain custody of client funds or securities. Clients receive monthly statements from the custodian and we encourage our clients to compare the account

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statements they receive from custodians and/or broker-dealers to the quarterly reports sent by PCM.

Item 14 – Investment Discretion

Pursuant to the terms of PCM's Investment Management Agreement, the adviser is not required to obtain client consent regarding specific securities to be bought or sold. However, the client does select a specific Investment Objective and the adviser buys securities for the client's account in accordance with the Investment Objective.

Per the Investment Management Agreement, the adviser assumes all investment duties with respect to assets held in the investment management account and has all investment power including sole investment authority. Certain clients may instruct the adviser to refrain from investing in certain companies or industries or from selling specific securities from that client's portfolio.

Item 15 – Voting Client Securities

PCM has outsourced the corporate research in regards to proxy voting with Egan-Jones Proxy Services. The Chief Compliance Officer (CCO) and/or the President of PCM review each research report before voting. If the CCO or president decides to vote against the recommendation of the research report, then an additional report will be written by that individual. The report will detail which proposals were voted differently from the research report and state why the decision was made.

Item 16 – Financial Information

PCM does not require prepayment from clients of more than \$1,200 in fees per client six months or more in advance. Client fees may be more than \$1,200 per client in any given quarter but PCM does not also require that clients pay six months or more in advance.

PCM currently does not have any financial condition that would impair its ability to meet contractual commitments to clients.

Item 17 – Requirements for State-Registered Advisers

While PCM carefully evaluates the education and business experience of every employee on a case-by-case basis, it has no pre-determined education or business standards.

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Marc J. Durica, CFA – born in 1948 – Mr. Durica received an MBA in Finance and BSBA from Bowling Green State University. He has also attained the Chartered Financial Analyst (CFA) designation. Mr. Durica is the President and Co-Founder of Portfolio Capital Management, where he has served since 1981.

James A. Bailey, CFP® - born in 1968 – is the Executive Vice President and Chief Compliance Officer of Portfolio Capital Management. Mr. Bailey received his BSBA in Finance from Youngstown State University and has earned the professional designation of Certified Financial Planner™. Jim joined Portfolio Capital Management in 1999.

Robert G. Fontana, CFA – born in 1970 – is the director of research and portfolio manager at PCM. He earned his MBA from Duke University and his BSBA from Georgetown University. Prior to advising PCM in January 2006, he served as a sell side analyst for Interstate/Johnson Lane from 1998-2001 and an analyst for a hedge fund from 2001- 2005. Bob has attained the Charter Financial Analyst (CFA) designation and is also a member of the North Carolina Society of Financial Analyst.