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**Form ADV Part II**  
**Brochure Cover Page**

Potomac Fund Management  
SEC File No. 801-31311

21 N Hanson Street, Suite 203  
Easton, MD 21601

Phone: 888-768-6622  
Email: [info@potomacfund.com](mailto:info@potomacfund.com)  
Website: [www.potomacfund.com](http://www.potomacfund.com)

3/22/2011

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

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## Potomac Fund Management (SEC No. 801-31311)

### Advisory Business

#### Item 4

Potomac Fund Management, Inc. (Potomac) was founded in 1987. The primary service offered by the Advisor, Potomac, is a portfolio management service through numerous investment strategies. These strategies span a wide range of risk and performance objectives, with the majority of assets being held in third-party mutual funds. This service is offered on a discretionary basis. For discretionary accounts, Potomac will have the authority to supervise and direct the portfolio without prior consultation with the client. Potomac does not have custody of, or title to client's funds at any time. The principal owner of Potomac is Mark Palamaras.

**No Financial Planning/Consulting Services.** Potomac's services are limited to discretionary investment management. Potomac **does not** hold itself out as providing, nor does it provide, any financial planning or related consulting services. Neither Potomac, nor any of its representatives, serves as an attorney, accountant, or insurance agent, and no portion of Potomac's services should be construed as same.

Potomac manages \$194,592,049 on a discretionary basis, as of December 31, 2010.

Potomac does not tailor its programs to the individual needs of a client. Clients cannot impose restrictions on investing in certain types of securities. At the time each client opens an account, the client is asked to provide information regarding client's investment experience, liquidity requirements, tolerance for risk and general financial condition. The client decides on the investment strategy and the investment strategies are:

#### Guardian

##### OBJECTIVE:

This strategy is designed to provide consistent conservative growth and preservation of capital by participating in U.S. and international markets and to limit portfolio volatility and risk of extensive loss.

##### DESCRIPTION:

The Guardian strategy is actively allocated across many sectors and/or asset classes, over weighting those exhibiting the best risk-to-reward ratio. Investments are primarily limited to low volatility mutual funds in an overall effort to reduce downside exposure. Through the careful selection of funds with a history of providing higher risk adjusted returns, the opportunity for higher returns may still be achieved while maintaining lower risk. Specialty investments – with greater volatility – may be used from time to time to hedge risk and provide for smoother returns. Risk-managed policies employ the use of cash or money market funds during adverse conditions; these positions could at times be 100%.

##### PROSPECTIVE CLIENT:

This strategy is suitable for investors wanting the broad diversification to equity markets offered by mutual funds. The typical Guardian client is most concerned with conservative growth and capital preservation.

#### Navigrowth

##### OBJECTIVE:

This strategy is designed to provide moderate to aggressive growth while participating in U.S. and international markets and to limit portfolio volatility and risk of extensive loss.

##### DESCRIPTION:

The Navigrowth strategy is actively allocated across many sectors and/or asset classes over weighting those exhibiting the best risk-to-reward ratio. There are no restrictions on the risk level of investments chosen. However, investments are limited to mutual funds with an emphasis on those that exhibit superior risk-adjusted returns in an overall effort to promote growth while limiting risk. Specialty investments – with greater volatility – may be used from time to time to hedge risk and provide for smoother returns. Risk-managed policies employ the use of cash or money market funds during adverse conditions; these positions could at times be 100%.

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### PROSPECTIVE CLIENT:

This strategy is suitable for investors wanting exposure to equity markets with an emphasis on a combination of moderate to aggressive growth and capital preservation. The typical Navigrowth client is willing to occasionally accept more risk than in other Potomac strategies with the goal of achieving a higher than market return while still preserving capital.

### Bull Bear

#### OBJECTIVE:

This strategy is designed to provide moderate to aggressive growth while participating in U.S. markets both on the long (buy) side and short (inverse) side, and to limit portfolio volatility and risk of extensive loss.

#### DESCRIPTION:

This strategy holds cash the majority of the time while waiting for the optimum opportunity to invest either on the long or short side. When Bull Bear does invest on the long side, it will buy a 150% leveraged S&P 500 index fund. The decision to move into the S&P 500-index fund is made by Potomac's Investment Committee upon review of various technical market indicators, and only when they are strongest. If the market indicators used to make investment decisions turn strongly negative, Potomac's Investment Committee may short the market through the use of an inverse fund.

#### PROSPECTIVE CLIENT:

The typical Bull Bear investor has a long-term moderate to aggressive growth focus and invests only a portion of their portfolio in this strategy.

### Advisor Express

#### OBJECTIVE:

This strategy is designed to provide moderate growth, using the Fidelity Funds universe, while participating in U.S. and international markets and to limit portfolio volatility and risk of extensive loss.

#### DESCRIPTION:

The Advisor Express/403(b) strategy is actively allocated across many sectors and/or asset classes over weighting those exhibiting the best risk-to-reward ratio. Investments are limited to mutual funds available in the large and broad based Fidelity Funds universe. Allocations can vary from highly diversified to highly concentrated in order to take advantage of the current and forecasted market environment. Risk managed policies employ the use of cash or money market funds during adverse conditions; these positions could at times be 100%.

#### PROSPECTIVE CLIENT:

This strategy is suitable for investors wanting exposure to equity markets with an emphasis on a combination of moderate growth and capital preservation. The typical Advisor Express/403(b) client is one enrolled in a program that restricts the investment selection to the Fidelity Funds universe.

### Income Plus

#### OBJECTIVE:

This strategy is designed to provide a stable long-term total return from current income and consistent capital appreciation with a goal of achieving an absolute return under all market conditions by participating primarily in U.S. and international fixed income, market neutral and specialty investments.

#### DESCRIPTION:

The Income Plus strategy is actively allocated across fixed income, market neutral and specialty mutual funds that demonstrate very low volatility and superior risk adjusted returns. The core investments in the Income Plus strategy shall be comprised of investment grade corporate and government bond mutual funds. Depending on credit risk conditions or interest rate volatility, this strategy may shift a portion of the assets to bond mutual funds that hold bonds that are lower than investment grade such as high yield bonds or to inflation protected bonds. In addition, this strategy may also invest in mutual funds that use derivatives, credit default swaps, merger/arbitrage and emerging market income positions. Specialty investments – with greater volatility – may be used from time to time to hedge risk and provide for smoother returns. Risk managed policies employ the use of cash or money market funds during adverse conditions; these positions could at times be 100%.

#### PROSPECTIVE CLIENT:

This strategy is suitable for investors wanting a steady source of income with the potential for growth sufficient to maintain stable asset levels after inflation. The typical Income Plus client is the most risk adverse and will have a shorter investment time horizon than investors in other Potomac strategies.

### MISCELLANEOUS

Client Responsibility. It remains the client's responsibility to advise Potomac (and/or the Solicitor that introduced the client to Potomac), in writing, of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review investment objectives and account performance on an annual basis. If the client is referred to Potomac by a Solicitor, the client should direct all such communications to the Solicitor. (For more information about Potomac's relationship with Solicitors, see the 'Other Financial Industry Activities and Affiliations' section of this document, Item 10).

Please Note: In performing its services, Potomac shall not be required to verify any information received from the client or from the client's other professionals, including the Solicitor, and is expressly authorized to rely thereon. At all times, the Solicitor shall be exclusively responsible for: (1) determining initial and ongoing client suitability for the various Advisor investment strategies; and, (2) for receiving/ascertaining all client directions, notices and instructions, and forwarding them to Potomac, in writing. Potomac shall be entitled to rely upon any such direction, notice, or instruction until it has been duly advised, in writing, of changes therein. Potomac shall have no responsibility to the client for the failure of the Solicitor to timely receive/ascertain/forward/communicate any and all such directions, notices and instructions.

Please Note: Inverse/Enhanced Market Strategies. Potomac may also utilize leveraged long and short mutual funds and/or exchange traded funds that are designed to perform in either an: (1) inverse relationship to certain market indices (at a rate of 1 or more times the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk; and (2) enhanced relationship to certain market indices (at a rate of 1 or more times the actual result of the corresponding index) as an investment strategy and/or for the purpose of increasing gains in an advancing market. There can be no assurance that any such strategy will prove profitable or successful. In light of these enhanced risks/rewards, a client may direct Potomac, in writing, not to employ any or all such strategies for his/her/their/its accounts

**Please Note:** Investment Risk. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Potomac) will be profitable or equal any specific performance level(s).

## Potomac Fund Management

### Fees and Compensation

Item 5

Potomac charges clients an annual fee for investment management services. The annual fee is a tiered fee schedule that is reduced for assets above certain dollar break points. The rates shown are annual:

#### **ADVISORY FEE SCHEDULE:**

<b>Account Value</b>	<b>Annual Management Fee</b>
<b>First \$100,000</b>	<b>2.5%</b>
<b>Next \$400,000</b>	<b>2.0%</b>
<b>Next \$500,000</b>	<b>1.75%</b>
<b>Over \$1,000,000</b>	<b>1.25%</b>

For example, a client with a \$600,000 account would be charged 2.5% on the first \$100,000, 2.0% on the next \$400,000, and 1.75% on the last \$100,000.

Fees are billed quarterly, in advance at 1/4 of the annual rates shown above. Fees are deducted directly from the client account. If a client has more than one account with Potomac, all account balances will be aggregated to determine which rate scale applies. Potomac may negotiate fees in certain cases. In such instances the fee is stipulated and agreed upon with the client's acceptance of the Investment Advisory Agreement. Fees for additional amounts invested shall be prorated for the remaining portion of the quarterly billing cycle and billed in arrears at the next billing period. No fee adjustments of less than \$100 will be made for partial withdrawals.

All payments for service are due in advance on the first day of the billing period. In the event of termination by investor within five business days of the effective date of the agreement, the fee will be refunded in full. All agreements remain in full force until terminated by either party. Either party may terminate the agreement at any time by giving written notice. **Upon termination fees are refundable on a pro rata basis after deduction for administrative costs up to \$300.**

Potomac, in its sole discretion, may charge a lesser investment management fee and/or reduce or waive its account minimum based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Officers and Directors of Potomac, Sales Representatives and certain other persons may be charged less than full fee, as previously detailed, upon approval of an authorized Potomac executive. **Clients are responsible for all fees imposed by custodian and mutual funds. These fees may include, but are not limited to, transaction fees, account service fees, loads, and redemption fees.** Account service fees may include items such as IRA custodial fees, wire transfer fees, etc. Some funds carry short-term redemption fees up to 2%, which vary by fund in terms of percentage and minimum required holding period. Mutual funds not included on institutions No-Transaction Fee Network are subject to a transaction fee upon purchase or sale. Clients are responsible for any fees associated with load funds or insurance products.

**Potomac Fund Management**

**Performance-Based Fees and Side-By-Side Management**

Item 6

Potomac does not charge performance-based fees (performance-based fees are fees that are based on the capital appreciation of the assets of an account).

### Potomac Fund Management

#### Types of Clients

Item 7

Potomac provides investment advice to individuals, pensions, profit sharing plans, investment companies, trusts, estates, other investment advisors, and to corporations and other business entities.

Potomac imposes a minimum new account value of \$50,000 for all investment strategies. Minimums are subject to change.

### Potomac Fund Management

#### Methods of Analysis, Investment Strategies and Risk of Loss

##### Item 8

Potomac uses the following methods to analyze securities: charting, fundamental, technical, and cyclical information. The main sources of information we use are financial newspapers and magazines, research materials prepared by others, and annual reports/prospectuses/filings with the Securities and Exchange Commission. The investment strategies used to implement any investment advice include long term purchases (securities held at least a year), short term purchases (securities sold within a year), and trading (securities sold within 30 days).

In addition, Potomac has entered into a License Agreement with Potomac Advisors (Licensor). The President and Portfolio Manager of Licensor is Richard M. Paul. Under the terms of this agreement Mr. Paul supplies analysis, research and recommendations as to investment selections. Through the License agreement with Potomac Advisors, Mr. Paul is an independent contractor, not an employee of Potomac.

Please note, investing in securities involves risk of loss that clients should be prepared to bear.

**Potomac Fund Management**

**Disciplinary Information**

Item 9

Potomac Fund Management does not have any legal or disciplinary events to disclose.

### Potomac Fund Management

#### Other Financial Industry Activities and Affiliations

##### Item 10

Potomac's services are primarily marketed by solicitor agreements. Potomac enters into written agreements with certain individuals and entities who will act as solicitors of Potomac's investment advisory services. Solicitors are compensated for referrals by receiving a portion of the fee paid by clients to Potomac in accordance with a written solicitor's referral agreement which complies with the Federal regulations as set out in 17CFR Section 275.206(4)-3(a). Such an agreement requires the IAR's (Investment Advisor Representative) to: (1) provide the client with a separate solicitor's written disclosure document, which complies with the federal regulations as set out in 17CFR section 275.206(4)-3(b), prior to or at the time of entering into any advisory contract and (2) provide Potomac with a copy of a signed and dated acknowledgment of receipt of the same disclosure document by the client. Licensed IAR's with a broker dealer may receive or have received commissions for customer's initial purchase, depending on the strategy entered into by the client. Neither Potomac nor any related person receives any portion of these commissions.

### Potomac Fund Management

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

##### Item 11

Potomac Fund Management has adopted a code of ethics pursuant to SEC rule 204A-1. The Code of Ethics serves to establish a standard of business conduct for all of Potomac's Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust. The code of ethics must be signed by all employees, and by doing so they agree to the following: employees cannot seek to benefit from insider information, all client information is strictly confidential, employees must provide a personal securities transaction report on a quarterly basis. A copy of Potomac's code of ethics is available upon request to any client or prospective client.

Potomac or any officer, employee, or sales representative may buy or sell any investments that are recommended to clients.

Potomac believes that no conflict of interest would exist in these practices since:

- 1) transactions involving money market and other mutual funds do not present the same opportunities for abuse as could result from transactions involving underlying portfolio securities of mutual funds,
- 2) the secondary market shares of such mutual funds is either nonexistent or insignificant to the extent that the Advisor may make trades in anticipation of the market activity which may follow an advisory recommendation,
- 3) Potomac makes every attempt to effect transactions in mutual funds at the same daily or hourly price for its clients, its officers and/or employees. Furthermore, prices of the open-end funds traded are determined by the value of the underlying portfolio securities of the mutual fund rather than by an open auction of the fund shares.

### Potomac Fund Management

#### Brokerage Practices

##### Item 12

At times Potomac may suggest a Broker to a client. Broker-dealers may be recommended but the advisory client remains responsible for the selection and account application. Brokers are recommended based on the variety and range of mutual funds available, relative commission rates, financial condition, operations, compliance, due diligence, trading practices, and the efficiency and accuracy of effecting transactions. Products and research services are usually not factors in selecting the brokers. Full disclosure is maintained. Commissions are customary, although Potomac Fund Management, Inc. does not receive any portion of said commission and there is no additional research fee. As always, full disclosure is exercised and clients maintain full discretion.

Please Note: Potomac offers its investment strategies through the investment platforms sponsored and/or offered by SEC registered and FINRA member broker-dealers. In addition to the referral fee described immediately above that is paid by Potomac to such broker-dealer solicitors, Potomac may also pay a broker-dealer a platform fee based upon the aggregate amount of assets referred to Potomac by all representatives of a specific broker-dealer. In addition, Potomac may also reimburse a representative of a solicitor for expenses incurred by such representative when marketing Potomac's investment advisory services.

### Potomac Fund Management

#### Review of Accounts

##### Item 13

All securities held in various client accounts are reviewed on a daily basis by one of the investment committee members. All accounts participating in the same investment strategy are managed in a similar manner. The daily reviews focus on the analysis of all investment positions with respect to price action of securities. Individual accounts are reviewed by trading personnel before and after a trade is made along with the normal monthly and quarterly reviews conducted by administrative staff. Monthly reviews focus on reviewing and confirming monthly account balances. Quarterly reviews focus on confirming performance is in alignment with the majority of client accounts traded similarly. Events triggering additional reviews include: client requests, changes in client objectives or financial status, world and political events, and other events that may affect investment positions.

It remains the client's responsibility to advise Potomac (and/or the Solicitor that introduced the client to Potomac), in writing, of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review investment objectives and account performance on an annual basis. If the client is referred to Potomac by a solicitor, the client should direct all such communications to the Solicitor.

The Custodian provides statements detailing transactions and account positions at the end of each month, and in some cases at the end of each quarter.

**Potomac Fund Management**

**Client Referrals and Other Compensation**

Item 14

See 'Other Financial Industry Activities and Affiliations' Section, Item 10.

### Potomac Fund Management

#### Custody

Item 15

Potomac does not have custody of, or title to client's funds at any time. Clients will receive a monthly statement directly from the custodian where the client's assets are held. (In some cases the client will receive quarterly statements from the custodian). At times, the client's financial advisor may provide an account statement generated from Potomac's web site. Please review and compare this statement to the statement provided by your custodian. If there is a discrepancy between the statements, please contact your financial advisor or Potomac Fund Management, immediately.

### Potomac Fund Management

#### Investment Discretion

Item 16

Potomac maintains limited discretion, in other words, Potomac has the authority to determine the securities to be bought or sold in a client's account. The Investment Advisory Agreement limits this discretion to investment selection and execution, as well as distribution of funds to the address of record.

### Potomac Fund Management

#### Voting Client Securities

Item 17

Potomac does not vote proxies as indicated in the Investment Advisory Agreement. If client directs custodian to send proxies to Potomac they will not be voted on behalf of the client.

**Potomac Fund Management**

**Financial Information**

Item 18

- A. Potomac does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Potomac is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Potomac has not been the subject of a bankruptcy petition.

**Potomac Fund Management**

**Requirements for State-Registered Advisers**

Item 19

N/A

**ANY QUESTIONS: Potomac's Chief Compliance Officer, Mark Palamaras, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**

# Form ADV- Part 2B

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## Potomac Fund Management

### Form ADV Part 2B

### Brochure Supplement

Mark Palamaras

21 N Hanson St., Suite 203  
Easton, MD 21601

Phone: 888-768-6622

This brochure supplement provides information about Mark Palamaras that supplements the Potomac Fund Management brochure. You should have received a copy of that brochure. Please contact Mark Palamaras if you did not receive Potomac Fund Management's brochure or if you have any questions about the contents of this supplement. Additional information about Mark Palamaras is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# Form ADV- Part 2B

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## Potomac Fund Management

### Educational Background and Business Experience

**Mark J. Palamaras Jr.** President, Investment Committee Chairman, was born December 10, 1968. Mr. Palamaras holds a BS degree from Frostburg State University and the Certified Financial Planner, CFP, designation. In 1991 he joined Potomac Fund Management as a Research Analyst. In 1996 he became Vice President of Potomac and as of November 2003 has been employed in the capacity of President.

The CFP certification is a standard of excellence for personal financial planning. The minimum qualifications for the CFP designation include holding a bachelor's degree or its equivalent, passing the CFP certification examination, and gaining relevant work experience of at least three years.

### Disciplinary Information

There is no disciplinary information to disclose.

### Other Business Activities

There are no other business activities to disclose.

### Additional Compensation

There is no additional compensation to disclose.

### Supervision

Potomac's investment committee makes decisions as a team. While it is rare that the investment committee has direct contact with clients, when they do they are not providing any financial planning or related consulting services. Potomac's services are limited to discretionary investment management. The investment committee is supervised by Mark Palamaras, President of Potomac. He can be reached at 888-768-6622.

### Requirements for State-Registered Advisers

N/A

## Potomac Fund Management

### Form ADV Part 2B

### Brochure Supplement

Manish Khatta

21 N Hanson St., Suite 203  
Easton, MD 21601

Phone: 888-768-6622

This brochure supplement provides information about Manish Khatta that supplements the Potomac Fund Management brochure. You should have received a copy of that brochure. Please contact Mark Palamaras if you did not receive Potomac Fund Management's brochure or if you have any questions about the contents of this supplement. Additional information about Manish Khatta is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# Form ADV- Part 2B

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## Potomac Fund Management

### Educational Background and Business Experience

**Manish Khatta**, Vice President, Investment Committee Member, Investment Advisor Representative, was born January 10, 1980. Mr. Khatta holds a BS degree in Finance from the University of Maryland. He has been a full time employee with Potomac since January 2002 and as of June 2004 has been employed in the capacity of Vice President.

### Disciplinary Information

There is no disciplinary information to disclose.

### Other Business Activities

There are no other business activities to disclose.

### Additional Compensation

There is no additional compensation to disclose.

### Supervision

Potomac's investment committee makes decisions as a team. While it is rare that the investment committee has direct contact with clients, when they do they are not providing any financial planning or related consulting services. Potomac's services are limited to discretionary investment management. The investment committee is supervised by Mark Palamaras, President of Potomac. He can be reached at 888-768-6622.

### Requirements for State-Registered Advisers

N/A

## Potomac Fund Management

### Form ADV Part 2B

### Brochure Supplement

Rich Paul  
Potomac Advisors

Phone: 941-870-3426

This brochure supplement provides information about Rich Paul that supplements the Potomac Fund Management brochure. You should have received a copy of that brochure. Please contact Mark Palamaras if you did not receive Potomac Fund Management's brochure or if you have any questions about the contents of this supplement. Additional information about Rich Paul is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# Form ADV- Part 2B

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## Potomac Fund Management

### Educational Background and Business Experience

**Richard M. Paul**, Investment Advisor Representative, was born August 19, 1943. Mr. Paul holds a degree in Electrical Engineering from New York University. He served as President of Potomac from September 1987 to November 2003. Since November 2003 Mr. Paul has worked as an independent contractor with Potomac.

### Disciplinary Information

There is no disciplinary information to disclose.

### Other Business Activities

Potomac has entered into a License Agreement with Potomac Advisors. The President and Portfolio Manager of Potomac Advisors is Richard M. Paul. Under the terms of this agreement Mr. Paul supplies analysis, research and recommendations as to investment selections. Through the License agreement with Potomac Advisors, Mr. Paul is an independent contractor, not an employee of Potomac.

### Additional Compensation

There is no additional compensation to disclose.

### Supervision

Potomac's investment committee makes decisions as a team. Rich Paul has no direct contact with clients. Potomac's services are limited to discretionary investment management. The investment committee is supervised by Mark Palamaras, President of Potomac. He can be reached at 888-768-6622.

### Requirements for State-Registered Advisers

N/A