

DISCLOSURE BROCHURE



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This brochure provides information about the qualifications and business practices of Scarecrow Trading Inc. Being registered as a registered investment adviser does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at 952-250-7453. 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 Scarecrow Trading Inc. (CRD #171581) is available on the SEC's website at www.adviserinfo.sec.gov

JANUARY 17, 2019

Item 2: Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

This update is in accordance with the required annual update for Registered Investment Advisors. Since the last filing of this brochure on January 16, 2019 the following has been updated:

- A typographical error was corrected on pages 1 and 14.
-

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 952-250-7453 or by email at: lenfox@scarecrowtrading.com

Item 3: Table of Contents

Form ADV – Part 2A – Firm Brochure

Item 1: Cover Page

Item 2: Material Changes ii

Annual Update ii

Material Changes since the Last Update ii

Full Brochure Available ii

Item 3: Table of Contents iii

Item 4: Advisory Business..... 6

Firm Description 6

Types of Advisory Services 6

Client Tailored Services and Client Imposed Restrictions 6

Wrap Fee Programs 6

Client Assets under Management..... 6

Item 5: Fees and Compensation 6

Method of Compensation and Fee Schedule 6

Client Payment of Fees 6

Additional Client Fees Charged 6

Prepayment of Client Fees 7

External Compensation for the Sale of Securities to Clients 7

Item 6: Performance-Based Fees and Side-by-Side Management..... 7

Sharing of Capital Gains..... 7

Item 7: Types of Clients 7

Description 7

Account Minimums 7

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss 7

Methods of Analysis 7

Investment Strategy 8

Security Specific Material Risks 8

Item 9: Disciplinary Information	9
Criminal or Civil Actions.....	9
Administrative Enforcement Proceedings.....	9
Self-Regulatory Organization Enforcement Proceedings.....	9
Item 10: Other Financial Industry Activities and Affiliations	9
Broker-Dealer or Representative Registration	9
Futures or Commodity Registration.....	9
Material Relationships Maintained by this Advisory Business and Conflicts of Interest .	9
Recommendations or Selections of Other Investment Advisors and Conflicts of Interest	10
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	10
Code of Ethics Description.....	10
Investment Recommendations Involving a Material Financial Interest and Conflict of Interest.....	10
Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest.....	11
Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest.....	11
Item 12: Brokerage Practices	11
Factors Used to Select Broker-Dealers for Client Transactions.....	11
Aggregating Securities Transactions for Client Accounts	11
Item 13: Review of Accounts.....	12
Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved	12
Review of Client Accounts on Non-Periodic Basis.....	12
Content of Client Provided Reports and Frequency	12
Item 14: Client Referrals and Other Compensation	12
Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest.....	12
Advisory Firm Payments for Client Referrals	12
Item 15: Custody	12
Account Statements	12

Item 16: Investment Discretion	12
Discretionary Authority for Trading	12
Item 17: Voting Client Securities	12
Proxy Votes	12
Item 18: Financial Information.....	12
Balance Sheet.....	12
Financial Conditions Reasonably Likely to Impair Advisory Firm’s Ability to Meet Commitments to Clients	13
Bankruptcy Petitions during the Past Ten Years.....	13
Item 19: Requirements for State Registered Advisors.....	13
Principal Executive Officers and Management Persons.....	13
Outside Business Activities.....	13
Performance Based Fee Description	13
Disclosure of Material Facts Related to Arbitration or Disciplinary Actions Involving Management Persons	13
Material Relationship Maintained by this Advisory Business or Management persons with Issuers of Securities	13
Brochure Supplement (Part 2B of Form ADV).....	15
Principal Executive Officer	15
Leonard “Len” C. Fox, Jr.	15
Item 2 Educational Background and Business Experience	15
Item 3 Disciplinary Information	15
Item 4 Other Business Activities	15
Item 5 Additional Compensation	15
Item 6 Supervision	16
Item 7 Requirements for State-Registered Advisors	16

Item 4: Advisory Business

Firm Description

Scarecrow Trading Inc. (“Advisor”) was founded in 2003 and began offering investment advisory services in 2014. Leonard C. Fox is 100% owner.

Types of Advisory Services

MARKET TIMING SIGNALS

Advisor has developed software technology which processes financial market data using proprietary mathematical algorithms and produces periodic instruction to take action regarding various securities or securities markets to unaffiliated Registered Investment Advisors under a license agreement.

Advisor will provide, upon execution of the license agreement, Signals to the unaffiliated Registered Investment Advisor (Licensee) via email on a daily basis. The Licensee is under no obligation to market or otherwise utilize the Signal(s) provided by Advisor and reserves the right to use or not use the Signal(s) if and when it deems appropriate or desirable in its sole discretion.

Client Tailored Services and Client Imposed Restrictions

Advisor does not solicit individual clients.

Agreements may not be assigned without written client consent.

Wrap Fee Programs

Advisor does not sponsor any wrap fee programs.

Client Assets under Management

Advisor does not manage client assets.

Item 5: Fees and Compensation

Method of Compensation and Fee Schedule

ADVISOR PLATFORM

Licensed unaffiliated Registered Investment Advisors using the platform will pay Advisor an annual fee not to exceed .50% based on the dollar value of all assets managed using the respective signals. These fees are payable to Advisor quarterly in advance or in arrears; depending upon who the unaffiliated Registered Investment Advisor charges clients, and are negotiable.

Client Payment of Fees

Fees are billed quarterly in advance, or arrears, meaning we bill either before or after the three monthly billing cycle. Fees are paid to Advisor by check or wire.

Additional Client Fees Charged

Custodians may charge transaction fees on purchases or sales of certain mutual funds, equities, and exchange-traded funds. These charges may include Mutual Fund transactions fees, postage and handling and miscellaneous fees (fee levied to recover costs associated

with fees assessed by self-regulatory organizations). These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Advisor, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

For more details on the brokerage practices, see Item 12 of this brochure.

Prepayment of Client Fees

Advisor does not charge fees in advance of more than \$500 per client and six months or more in advance.

External Compensation for the Sale of Securities to Clients

Advisor does not receive any external compensation for the sale of securities to clients, but investment advisor representatives of Advisor may receive compensation for the sale of securities as investment advisor representatives of unaffiliated advisory firms.

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

Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

Advisor does not use a performance-based fee structure because of the conflict of interest. Performance based compensation may create an incentive for the advisor to recommend an investment that may carry a higher degree of risk to the client.

Item 7: Types of Clients

Description

Advisor provides investment advice to Registered Investment Advisory firms and investment companies.

Client relationships vary in scope and length of service.

Account Minimums

Advisor does not require a minimum to open an account.

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

Methods of Analysis

The Advisor uses Absolute Return strategy for market signals. All signals are designed for active management and are to be traded against Index based ETF's or Mutual Funds.

Investment Strategy

Absolute return investment techniques include using short selling, futures, options, derivatives, arbitrage, leverage and unconventional assets.

Security Specific Material Risks

All investment programs have certain risks that are borne by the investor. Fundamental analysis may involve interest rate risk, market risk, business risk, and financial risk. Risks involved in technical analysis are inflation risk, reinvestment risk, and market risk. Cyclical analysis involves inflation risk, market risk, and currency risk.

Our security analysis approach constantly keeps the risk of loss in mind. Investors face the following investment risks and should discuss these risks with Advisor:

- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Market Risk:* The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- *Inflation Risk:* When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Business Risk:* These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- *Liquidity Risk:* Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- *Financial Risk:* Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its

obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

- *Option Risk:* The risk with option buying are the risk of losing your entire investment in a relatively short period time and losing your entire investment as the option goes out of the money and as expiration nears. The risk with option selling are options sold may be exercised at any time before expiration and forgoing the right to profit when the underlying stock rises above the strike price of the call option sold.

Item 9: Disciplinary Information

Criminal or Civil Actions

The firm and its management have not been involved in any criminal or civil action required to be reported.

Administrative Enforcement Proceedings

The firm and its management have not been involved in administrative enforcement proceedings required to be reported.

Self-Regulatory Organization Enforcement Proceedings

The firm and its management have not been involved in legal or disciplinary events related to past or present investment clients required to be reported.

Item 10: Other Financial Industry Activities and Affiliations

Broker-Dealer or Representative Registration

Advisor is not registered as a broker-dealer and no affiliated persons are registered representatives of a broker dealer.

Futures or Commodity Registration

Neither Advisor nor its employees are registered or has an application pending to register as a futures commission merchant, commodity pool operator, or a commodity trading advisor.

Material Relationships Maintained by this Advisory Business and Conflicts of Interest

President Leonard C. Fox is also an investment advisor representative of Strategic Income Advisors. Approximately 35% of Mr. Fox's time is spent in these business practices. From time to time, he will offer clients products and/or services from these activities.

Since Scarecrow Trading Inc. only offers trading signals to Registered Investment Advisors, there is no conflict of interest.

President Leonard C. Fox is also Managing Partner of Numetrix Capital, LLP, a signal provider similar to Scarecrow Trading Inc. Approximately 5% of his time is spent in this business.

Recommendations or Selections of Other Investment Advisors and Conflicts of Interest

Advisor does not recommend or select other investment advisors.

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

Code of Ethics Description

The employees of Advisor have committed to a Code of Ethics (“Code”). The purpose of our Code is to set forth standards of conduct expected of Advisor employees and addresses conflicts that may arise. The Code defines acceptable behavior for employees of Advisor. The Code reflects Advisor and its supervised persons’ responsibility to act in the best interest of their client.

One area in which the Code addresses is when employees buy or sell securities for their personal accounts and how to mitigate any conflict of interest with our clients. We do not allow any employees to use non-public material information for their personal profit or to use internal research for their personal benefit in conflict with the benefit to our clients.

Advisor’s policy prohibits any person from acting upon or otherwise misusing non-public or inside information. No advisory representative or other employee, officer or director of Advisor may recommend any transaction in a security or its derivative to advisory clients or engage in personal securities transactions for a security or its derivatives if the advisory representative possesses material, non-public information regarding the security.

Advisor’s Code is based on the guiding principle that the interests of the client are our top priority. Advisor’s officers, directors, advisors, and other employees have a fiduciary duty to our clients and must diligently perform that duty to maintain the complete trust and confidence of our clients. When a conflict arises, it is our obligation to put the client’s interests over the interests of either employees or the company.

The Code applies to “access” persons. “Access” persons are employees who have access to non-public information regarding any clients’ purchase or sale of securities, or non-public information regarding the portfolio holdings of any reportable fund, who are involved in making securities recommendations to clients, or who have access to such recommendations that are non-public.

The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Investment Recommendations Involving a Material Financial Interest and Conflict of Interest

Advisor and its employees do not recommend to clients securities in which we have a material financial interest.

Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest

Advisor and its employees may buy or sell securities that are also held by clients. In order to mitigate conflicts of interest such as front running, employees are required to disclose all reportable securities transactions as well as provide Advisor with copies of their brokerage statements.

The Chief Compliance Officer of Advisor is Leonard C. Fox. He reviews all employee trades each month. The personal trading reviews helps mitigate that the personal trading of employees does not affect the markets and that clients of the firm have received preferential treatment over employee trades.

Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest

Advisor does not maintain a firm proprietary trading account and does not have a material financial interest in any securities being recommended and therefore no conflicts of interest exist. However, employees may buy or sell securities at the same time they buy or sell securities for clients. In order to mitigate conflicts of interest such as front running, employees are required to disclose all reportable securities transactions as well as provide Advisor with copies of their brokerage statements.

Item 12: Brokerage Practices

Factors Used to Select Broker-Dealers for Client Transactions

Broker-Dealers selected for use by the Advisor are selected due to the availability of technology interfaces for automated trade execution, which is not generally available at other brokerages, and also for very low cost trade commissions, which are typically well below that of other brokerages available to Advisor. Clients pay for any and all custodial fees in addition to the advisory fee charged by Advisor.

- *Directed Brokerage*
Advisor does not provide direct asset management and therefore does not take direction from clients as to what broker-dealer to use.
- *Best Execution*
Investment advisors who manage or supervise client portfolios on a discretionary basis have a fiduciary obligation of best execution. Advisor does not exercise discretion of client accounts.
- *Soft Dollar Arrangements*
Advisor does not maintain any soft dollar arrangements.

Aggregating Securities Transactions for Client Accounts

Advisor does not trade for its or its clients' accounts and therefore aggregation of securities transactions is not applicable.

Item 13: Review of Accounts

Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

Advisor does not review client accounts.

Review of Client Accounts on Non-Periodic Basis

Advisor does not review client accounts.

Content of Client Provided Reports and Frequency

Advisor does not provide reports.

Item 14: Client Referrals and Other Compensation

Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

Advisor does not receive any economic benefits from external sources.

Advisory Firm Payments for Client Referrals

Advisor does not compensate for client referrals.

Item 15: Custody

Account Statements

Advisor does not provide account statements.

Item 16: Investment Discretion

Discretionary Authority for Trading

Advisor does not accept discretionary authority to manage securities accounts on behalf of clients.

Item 17: Voting Client Securities

Proxy Votes

Advisor does not vote proxies on securities. Clients are expected to vote their own proxies. The client will receive their proxies directly from the custodian of their account or from a transfer agent.

When assistance on voting proxies is requested, Advisor will provide recommendations to the client. If a conflict of interest exists, it will be disclosed to the client.

Item 18: Financial Information

Balance Sheet

A balance sheet is not required to be provided because Advisor does not serve as a custodian for client funds or securities and Advisor does not require prepayment of fees of more than \$500 per client and six months or more in advance.

Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients

Advisor has no condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Bankruptcy Petitions during the Past Ten Years

No bankruptcy petitions to report.

Item 19: Requirements for State Registered Advisors

Principal Executive Officers and Management Persons

The education and business background for all management and supervised persons can be found in the Part 2B of this Brochure.

Outside Business Activities

The outside business activities for all management and supervised persons can be found in the Part 2B of this Brochure.

Performance Based Fee Description

Advisor does not receive any performance based fees.

Disclosure of Material Facts Related to Arbitration or Disciplinary Actions Involving Management Persons

No management persons of Advisor have any disclosures to report.

Material Relationship Maintained by this Advisory Business or Management persons with Issuers of Securities

There are no material relationships with issuers of securities to disclose.

SUPERVISED PERSON BROCHURE
FORM ADV PART 2B

Leonard C. Fox, Jr.



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This brochure supplement provides information about Leonard C. Fox, Jr. and supplements the Scarecrow Trading Inc.'s brochure. You should have received a copy of that brochure. Please contact Leonard C. Fox, Jr. if you did not receive the brochure or if you have any questions about the contents of this supplement.

Additional information about Leonard C. Fox, Jr. (CRD #5625194) is available on the SEC's website at www.adviserinfo.sec.gov.

JANUARY 17, 2019

Brochure Supplement (Part 2B of Form ADV)

Supervised Person Brochure

Principal Executive Officer

Leonard “Len” C. Fox, Jr.

- Year of birth: 1954
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Item 2 Educational Background and Business Experience

Educational Background:

- Regis University-Denver; Masters of Business Administration; 1991

Business Experience:

- Scarecrow Trading Inc.; President /Investment Advisor Representative; 06/2014-Present
 - Strategic Income Advisors; Investment Advisor Representative; 06/2014-Present
 - Scarecrow Trading Inc.; President; 11/2003-Present
 - Lion Macros; Manager; 11/2003-10/2017
 - Profitscore Capital Management, Inc.; Investment Advisor Representative; 01/2004-05/2014
 - Numetrix Capital LLP – Managing Partner 5/2014 – Present
 - AT&T; Manager; 12/2012-09/2014
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Item 3 Disciplinary Information

None to report.

Item 4 Other Business Activities

President Leonard C. Fox is also an investment advisor representative of Strategic Income Advisor firm. Approximately 35% of Mr. Fox’s time is spent in these business practices. From time to time, he will offer clients products and/or services from these activities.

Since Scarecrow Trading Inc. only offers trading signals to Registered Investment Advisors, there is no conflict of interest.

President Leonard C. Fox is also Managing Partner of Numetrix Capital, LLP, a signal provider similar to Scarecrow Trading Inc. Approximately 5% of his time is spent in this business.

Item 5 Additional Compensation

Mr. Fox receives additional compensation on the products he sells through his work as an investment advisor representative of an unaffiliated advisory firm but he does not receive performance based fees.

Item 6 Supervision

Since Mr. Fox is the sole owner of Scarecrow Trading Inc. He is solely responsible for all supervision and formulation and monitoring of investment advice offered to clients. He will adhere to the policies and procedures as described in the firm's Compliance Manual.

Item 7 Requirements for State-Registered Advisors

Arbitration Claims: None to report.

Self-Regulatory Organization or Administrative Proceeding: None to report.

Bankruptcy Petition: None to report.