

Form ADV: Part 2A Firm Brochure

Capital Enhancement LLC
465 South Street
Suite 201
Morristown, NJ 07960

Phone: (973) 326-1000

Fax: (973) 326-1022

Website: www.capenh.com

Email contact: scalvelli@capenh.com

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This brochure provides information about the qualifications and business practices of Capital Enhancement LLC. If you have any questions about this brochure, please contact us at the telephone number or email address above. The information in this brochure has not been approved or verified by the Securities and Exchange Commission (SEC) or any state securities authority. Additional information about our firm can be found on the SEC's website at www.adviserinfo.sec.gov. Our firm is a Registered Investment Adviser. We are required to inform you that registration itself does not imply a certain level of skill or training.

There are no material changes from our last update in January, 2010.

Table of Contents

Advisory Business	Page 3
Fees and Compensation	Page 3, 4
Performance-Based Fees and Side-by-Side Management	Page 4
Types of Clients	Page 4
Methods of Analysis, Investment Strategies and Risk of Loss	Page 4
Disciplinary Information	Page 5
Other Financial Industry Activities and Affiliations	Page 5
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 5
Brokerage Practices	Page 5, 6
Review of Accounts	Page 6
Client Referrals and Other Compensation	Page 6
Custody	Page 6
Investment Discretion	Page 6
Voting Client Securities	Page 7
Financial Information	Page 7
Requirements for State-Registered Advisers	Page 7

Advisory Business

Capital Enhancement LLC, formed in 1996, provides personalized tax and investment advice, financial planning, tax preparation, and family office services to high net worth individuals and their families. Since the passing of our founder, Douglas Fromberg, in 2009, Steven Calvelli is the sole owner of the firm.

Our investment advisory services are delivered primarily by using wrap fee programs using investment managers, mutual funds, and ETFs. We do not select individual securities for client portfolios; rather we help clients select managers and indices as part of their overall financial planning. We then monitor performance, tax efficiency and asset allocation as part of the overall service we provide to our clients.

Our advisory services are tailored to our clients' risk tolerance, tax situation, and other personal considerations. Clients can impose restrictions on investing in certain types of securities.

As of December 30, 2010, we managed approximately \$51,000,000 on a nondiscretionary basis.

Fees and Compensation

We are a fee-only firm and only receive fees from our clients. We are not paid by third parties such as banks or brokerage firms, nor do we charge commissions.

For services such as tax consulting, tax preparation and financial planning, we generally charge an hourly fee, a flat fee, or an annual retainer. For investment advisory services, we generally charge an annual fee of 0.75% of the assets being managed by us, although this fee is negotiable. We often "bundle" our services for investment advisory clients, meaning that we may charge an asset-based fee, and for that fee, also provide tax preparation and financial advice on any aspect of our clients' personal financial affairs.

If we charge a client by the hour, or a flat rate or retainer, we invoice the client separately. Asset-based fees are deducted directly from the clients' accounts by the third party custodian and then remitted to our firm. A client can choose either method.

Depending on the custodian, client asset-based fees are deducted from accounts quarterly, either in advance (Pershing) or in arrears (SEI). If we bill in advance and a client terminates our services, that client is entitled to a pro rata return of fees, calculated on a daily basis.

In addition to our fees, investment advisory clients of ours pay asset-based fees to the money managers or mutual funds for investment management, the custodian for brokerage commissions (as opposed to a per trade commission), and the wrap program sponsor for performance reporting and program maintenance. We do not receive any portion of those fees.

Neither our firm nor do any of our principals accept compensation for the sale of securities on other investment products. We do not sell insurance. When we recommend mutual fund investments to our clients, we have a bias towards “no-load” funds with no upfront, deferred, or annual sales charges. We believe these products are generally advantageous to our clients compared to funds with sales charges.

Performance-Based Fees and Side-by-Side Management

We do not accept performance-based fees based upon a percentage of the capital appreciation of assets. The owner of Capital Enhancement also invests personal money in the same programs as our clients, with the same pricing our clients receive

Types of Clients

We generally serve individuals and their related entities: trusts, partnerships, and foundations. The majority of our clients are either current or retired corporate executives, but we serve other high net worth individuals as well.

While we do not have strict minimums in terms of account size, we believe we function most effectively with clients with at least \$1 million in investable assets. We have a special expertise in tying together various aspects of a client’s finances and believe we operate most effectively with wealthy clients who have some complexities in their financial affairs.

Methods of Analysis, Investment Strategies and Risk of Loss

Capital Enhancement recommends traditional investment strategies for clients. We first start by helping clients determine an asset allocation investment strategy with which they are comfortable. Once the strategy is formulated, we then implement using money managers, mutual funds and ETFs. We monitor performance of the various managers and funds with our clients. Our bias is to evaluate performance on an annual basis and to avoid firing managers because of a bad month or quarter, which we believe could produce adverse tax and financial consequences long term. We manage with tax efficiency as a factor, and our most important evaluation tool is benchmarking manager performance and risk versus a relevant index.

We tend to recommend strategies and managers that clients understand and tend to avoid more exotic strategies, such as option trading or investing in retail hedge funds. With respect to the money managers we use for clients, since brokerage commissions are included in the program fees, frequent trading of securities does not increase costs to our clients; however, frequent trading may lead to tax inefficiencies, so we discourage it for taxable accounts.

Disciplinary Information

None of the principals/key employees of Capital Enhancement have ever been subject to any legal or disciplinary actions or controversies.

Other Financial Industry Activities and Affiliations

None of the principals/key employees of Capital Enhancement have outside personal/professional relationships and affiliations that would create a material conflict of interest with our clients. We are only paid by our clients. However, we routinely make referrals to other professionals such as attorneys, mortgage bankers and insurance agents that we believe would provide good service to our clients. Our relationships with these professionals are always predicated on what we believe is best for the client.

With respect to choosing money managers and mutual funds for clients, we have no loyalty to any firm, and choose based on an objective evaluation of the manager or fund. Some managers may not participate in our wrap programs and, therefore, are not offered to our clients.

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

We have a comprehensive Code of Ethics that we will provide to any client or prospective client upon request. The basic principal is that we are fiduciaries for our clients and are required to put their interests ahead of our own in advising them.

We do not recommend or purchase for client accounts securities in which we have a financial interest.

We sometimes invest with the same money managers and mutual funds as our clients. We invest on the same terms and we are subject to the same pricing as our clients.

Brokerage Practices

In considering broker dealers, we consider several factors: pricing and execution for the clients, and the ease of doing business with that broker, both for Capital Enhancement and the client. Since we receive no compensation from any non-client party, compensation from a broker is not a consideration.

We receive no “soft dollar” benefits, including proprietary research. We do not receive client referrals from any broker dealer or third party financial institution.

Clients are free to choose any broker dealer. If a client wishes to use Capital Enhancement to assist in the actual investment implementation, we will use wrap programs sponsored by Pershing or SEI, and for a traditional brokerage arrangement, we will recommend TD Ameritrade.

We chose Pershing and SEI based on the quality of managers under their programs, costs, and ease of doing business. We chose TD Ameritrade because of their low commissions, ease of doing business, and overall business reputation.

Occasionally, we will be treated to lunch to discuss business practices or receive a de minimus gift at year end from a broker-dealer. These items have no impact on our choice of broker-dealers.

Review of Accounts

Steven Calvelli and Robert O'Brien formally review client accounts at least quarterly. As a practical matter, client accounts are reviewed on an informal basis at least weekly. Account reviews are also triggered by unexpected changes in the market or changing client circumstances.

Clients receive quarterly performance reports and receive monthly account statements directly from the custodian, either by mail or electronically. Many of our clients have chosen to have direct access online to their accounts through the custodian's web portal.

Client Referrals and Other Compensation

We do not receive any monetary compensation from non-clients. Occasionally, a broker-dealer, money manager or other outside vendor may invite us to lunch, where business is discussed. We occasionally receive small gifts at year end from outside vendors.

We do not compensate any outside party for client referrals.

Custody

We do not hold custody of client assets. We believe this is a best practice in terms of client protection.

We do not offer check writing services. All client assets under our care are held at reputable, third-party custodians. Each client receives statements either electronically or by US mail directly from the custodian.

Investment Discretion

As a general rule, Capital Enhancement does not accept discretionary authority to manage investments of clients. Rather, we will suggest appropriate funds/managers that we believe are appropriate for clients to use in their investment portfolio. Those managers will have discretionary authority to buy and sell securities as they see fit, and we monitor their performance.

Voting Client Securities

We do not vote client securities. Clients can choose to receive proxies and other solicitations directly from the custodian; in our experience, most choose not to receive this information.

Financial Information

We do not require or solicit prepayment of fees more than 6 months in advance; therefore, we are not required to submit a balance sheet.

Requirements for State-Registered Advisers

The backgrounds of Steven Calvelli and Robert O'Brien are described in Parts 2B of Form ADV (Brochure Supplements).

We spend about half of our time on tax compliance and consulting, and about half on financial planning and investment advisory work for clients.

We are not compensated for advisory services with performance-based fees.

None of our management has been found liable in an arbitration claim, or civil, self-regulatory, or administrative proceeding.

We have no financial relationships with issuers of securities.