Form ADV - Part 2A: PA

Item 1: Cover Page

Brochure Cover Page

Potomac Advisors, Inc.

7215 Teal Creek Glen
Lakewood Ranch, FL 34202

Phone: 941-870-3426
Email: info@potomacadvisorsinc.com
Website: www.potomacadvisorsinc.com

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This brochure provides information about the qualifications and business practices of Potomac Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at info@potomacadvisorsinc.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 Advisors Inc. is also available on the SEC's website at www.adviserinfo.sec.gov. Potomac Advisor, Inc.'s CRD number is: 131070.

Please note that the use of the term "registered investment adviser" and description of Potomac Advisor, Inc. and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and our employees.

Item 2: Material Changes

The purpose of this page is to inform you of any material changes since the previous version of this brochure.

On March 31,2017, we submitted our annual updating amendment filing for the fiscal year 2016 and made the following material changes:

- Item 4 (“Advisory Business”) was revised to disclose discretionary assets under management of approximately $27,866,978, as of March 17th, 2017.
- Item 5 (“Fees and Compensation”) was revised to update the firm’s fee schedules. Our maximum fee has been reduced from 2.5% to 2.0%.
- Item 8 (“Methods of Analysis, Investment Strategies and Risk of Loss”) has been updated to include additional strategies offered by Potomac Advisors, Inc. It has also been updated to include revised descriptions of all strategies offered by Potomac Advisors, Inc., including associated risks.
- Item 12 (“Brokerage Practices”) has been updated to disclose any “Soft Dollar Benefits” Potomac Advisors, Inc. may receive from brokerage firms.

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Item 3: Table of Contents

Item 4: Advisory Business

A) Firm Description
Potomac Advisors, Inc. (hereinafter “PA”) is a state registered investment advisor based in Lakewood Ranch, Florida. The company was founded in 2003, under Florida state law, and is currently licensed in Florida and Maryland. Richard M. Paul is the President, CIO and 100% shareholder.

B) Type of Advisory Services
PA offers two services: Professional Consulting Service in which PA provides investment recommendations and market timing signals to unaffiliated registered investment advisers (hereinafter “Licensees”) and Supervisory Management Services in which PA provides investment supervisory and management services to primarily individuals, and occasionally to pension and profit-sharing plans; trusts; estates and charitable organizations; corporations and other business entities (hereinafter “Clients”).

PA does not hold itself out as providing, nor do we provide any financial planning or related consulting services. Neither PA, nor any of its representatives, serves as an attorney, accountant, or insurance agent, and no portion of PA services should be construed as the same.

PROFESSIONAL CONSULTING SERVICES

PA has developed four proprietary, quantitative strategies: EVO 1, EVO 2, EVO 3, and Tactical Asset Allocation (hereinafter “TAA”). These strategies process financial market data using mathematical algorithms and produce periodic instructions to purchase or sell various mutual funds, stocks, and ETFs (hereinafter “Signals”) and allocation recommendations for such stocks, funds and ETFs. These Signals are available to a Licensee upon execution of a license agreement, and delivered via email or telephone. The Licensee is under no obligation to utilize the Signals provided by PA and reserves the right to use or not use the Signals for managing its clients’ accounts if and when it deems appropriate or desirable at its sole discretion. If the Licensees accept the recommendations, they place the orders and affect their execution, not PA.

SUPERVISORY MANAGEMENT SERVICES
PA offers limited-discretionary portfolio management services to Clients. All Clients sign Part I of the PA’s Investment Management Agreement, which limits this discretion to the selection and timing of the proper mix and balance of securities, and to placing orders for the purchase, sale or exchange of those securities. PA places orders in the Client’s accounts without prior consultation with the Client.

C) How Advisory Services are Tailored to Client Needs

For supervisory management services, acceptance, supervision and portfolio management of each Client's account is tailored to and based upon the completion of a suitability questionnaire (Part II of the Investment Management Agreement) and an interview of the investor by a PA representative or a unaffiliated third party representative who may have referred the Client to PA (hereinafter, “Solicitor”). (For more information about Potomac's relationship with Solicitors, see Item 10: “Other Financial Industry Activities and Affiliations” of this brochure). The suitability questionnaire gathers the Client’s investment experience, liquidity requirements, tolerance for risk and general financial condition. This helps establish the Client’s relative risk profile, tolerance of losses, and investment time horizon, which guides the selection of strategies for the Client’s account. Additionally, Clients may impose restrictions that may affect the ability of PA to manage the Client’s assets.

Based on the Client’s interview and questionnaire, PA allocates investments into either the EVO Strategies, or into other mutual funds, stocks or ETFs through PA’s TAA strategies, or a combination of both.

It remains the Client's responsibility to advise PA (and/or the Solicitor that introduced the Client to PA), 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 PA by a Solicitor, the Client should direct all such communications to the Solicitor.

Please Note: In performing its services, PA is not 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. Solicitors who refer Clients are exclusively responsible for: (1) determining initial and ongoing Client suitability for the various adviser investment strategies; and, (2) for receiving/ascertaining all Client directions, notices and instructions, and forwarding them to PA, in writing. PA will rely upon any such direction, notice, or instruction until it has been advised of changes in writing. PA is not responsible for the failure of the Solicitor to timely receive/ascertain/forward/communicate Client directions, notices and instructions.

D) Wrap Programs

PA does not currently offer any wrap fee programs.

E) Assets Under Management

PA manages the following amount of Client assets as of March 17th, 2017:

- Limited-discretionary assets: $27,866,978
- Non-discretionary assets: $0

Item 5: Fees and Compensation

A) Professional Consulting Services Fee Schedule

Licensees pay PA an annual royalty fee not to exceed 0.50% based on the dollar value of all assets managed using PA's recommendations. These fees are payable to PA quarterly at ¼ the annual rate in advance or in arrears, depending upon when the Licensee charges their clients. Fees are negotiable depending on the anticipated volume of assets for which the Licensees use PA's recommendations, and in some cases, the costs for preparation, travel, and time spent in assisting the Licensees in marketing their services that use PA's recommendations for their clients.

Licensees also pay PA a base minimum fee due in advance of each quarter. This fee can be used to offset quarterly royalty payments, as described above. The base minimum fee is negotiable but shall be no less than $1,000 per quarter. Once the royalty fee substantially exceeds the base minimum fee, the base minimum fee may be omitted at PA's discretion.

B) Supervisory Management Services Fee Schedule

PA charges an annual fee of up to 2% of the market value of the assets under management. These fees are negotiable, and memorialized in the Investment Management Agreement. Fees are billed and payable quarterly in advance, at a rate equal to ¼ of the annual fee percentage, multiplied by the market value of the assets on the last day of the previous quarter.

Fees for new accounts will be prorated based on the initial value of the investment account assets, as of the date of acceptance of the Investment Management Agreement by PA, and the number of days remaining in the quarterly management period. Additional assets received into the account after it is opened will be charged a prorated fee based upon the number of days remaining in the quarterly management period from the date of the addition.

PA, in its sole discretion, may charge a lower 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 PA, and certain other persons may be charged less than full fee, as previously detailed, upon approval of an authorized PA executive.

C) Fees Are Deducted from Client's Accounts

Fees will be deducted directly from Client's account by the custodian upon written authorization by the Client. In some circumstances, Client may pay by check or Electronic Funds Transfer (EFT) if requested in writing to PA and upon PA's approval. Each time a fee is directly deducted from the account, PA will concurrently send to the Client's principal custodian a notice showing the management fee to be deducted, and to the Client, an invoice itemizing the fee, the amount of assets upon which the fee is based, how the fee was calculated, and the time period covered by the fee. Clients should review and verify the calculation of our fees. The custodian/broker-dealer does not verify the accuracy of fee calculations. Fees billed will be deemed correct and final unless Client sends PA notification in writing to the contrary within seven (7) days after receipt of the invoice.

D) Other Fees Clients May Incur

In addition to our management fees, Clients may be required to pay other fees and expenses (as applicable) such as custodial or brokerage transaction fees. These fees are not related to our service. We do not receive any portion of these fees. In addition to these fees, mutual fund companies and exchange-traded funds ("ETFs") charge internal management and administrative fees and expenses for their products. Complete details of these internal fees and expenses are explained in each fund's prospectus. Clients are strongly encouraged to read these explanations before investing any money. Our management fee is not reduced by the amount of any fund or transaction fees.

The above fees may also include, but are not limited to: transfer fees, wire fees, account service fees, load fees, including 12b1 marketing fees. Some funds carry short-term redemption fees up to 2%, which vary by fund in terms of percentage and minimum required holding periods. Some broker dealers may also charge their own short-term redemption fees in addition to those imposed by some mutual funds. Mutual funds not included on institutions No-Transaction Fee Network are subject to a transaction fee upon purchase or sale. All such fees and expenses reduce the net asset value of the investments' shares on a continuing basis. These fees are reflected in the value of the investments' shares and are indirectly incurred by Clients in addition to our management fees. PA does not share in any portion of any fees including load or 12b1 fees, nor does it receive any economic benefit from these fees or any other fees. For more information on broker practices and how they may affect your investments, please refer to Item 12 ("Broker Practices") of this brochure.

Clients may ask us any questions that they have about fees and expenses.

E) Refunds

If a Client terminates the management agreement within five business days of the effective date, the fee will be refunded in full. Otherwise, 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 from the date of termination through the end of the billing period, after deduction for administrative costs up to $200. The fees for termination may not exceed the actual expenses incurred in processing the termination

In the event of a partial withdrawal, fees are refunded from the date of the withdrawal for the remainder of the quarterly management period. No fee adjustments less than $150 will be made for partial withdrawals.

F) Compensation for the Sale of Securities or other Investment Products

No employees or supervised persons of PA accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Performance-based fees are designed to give a portion of the capital appreciation of an investment to the investment adviser as a reward for positive performance. The fee is generally a percentage of the profits made on the investments. PA does not charge performance-based fees on any of our Client accounts.

Item 7: Types of Clients and Account Minimums

PROFESSIONAL CONSULTING SERVICES

As previously defined, PA offers market timing signals, mutual fund, equity and ETF recommendations (Signals) to unaffiliated registered investment advisers, or "Licensees."

Licensees are not required to have certain minimum assets under management to license PA's Signals. However, PA reserves the right to terminate the agreement should no assets ever come under management.

SUPERVISORY MANAGEMENT SERVICE FEES

As previously defined, PA offers investment supervisory and management services to primarily individuals, and occasionally to pension and profit-sharing plans; trusts; estates and charitable organizations; corporations and other business entities, or "Clients."

PA imposes a minimum new account value of $100,000. PA reserves the right to waive the minimum based upon individual circumstances, pre-existing relationships, where the minimum can be met within a specified time period, or at a PA officer's sole discretion. Investment advisory services are not appropriate for all persons and/or entities. Therefore, PA reserves the right to decline to provide services to any person or firm.

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

A) Methods of Analysis

Investing in securities involves risk of loss that you should be prepared to bear. Additionally, because many of PA's strategies have a low correlation to the broader market, it's possible that a Client's account may depreciate in value over periods of time when the market appreciates in value.

EVO STRATEGIES

The EVO strategies use a proprietary model based on quantitative analysis to identify primarily short-term trading opportunities. Quantitative analysis of the stock market refers to financial analysis that aims to understand or predict the behavior and patterns of the stock market. It does so using modern technology and the availability of comprehensive databases to make mathematical measurements and calculations, through statistical modeling and research for making rational trading decisions. Quantitative analysis aims to represent a given reality in terms of a numerical value of the probability that a trade will be profitable.

Historic financial and raw stock market technical data are used in developing the EVO trading system model, including major and secondary market indices, market breadth (advancing and declining issues, the number of new yearly stock highs and lows), volume, volatility measures, interest rate, sentiment and seasonality data. These data are integrated into a set of algorithmic rules to identify patterns with the highest probability of predicting near term stock market direction and then those rules are employed for making trading decisions.

Both the EVO 1 and 2 Strategies use the Rydex NOVA Fund, a leveraged (1.5X the daily change of the S&P 500 index) fund for long positions, the Rydex Inverse S&P 500 Strategy Fund, an un-leveraged inverse S&P 500 index fund, for short positions, and the Rydex U.S. Government Money Market Fund for cash positions. The only difference between the two strategies is that EVO 1 is non-discretionary, i.e. entirely mechanical, and applies an “all in” allocation, i.e. 100% allocation to whichever fund is selected, while discretion may be used in implementing the timing decisions and allocation of the funds in EVO 2.

The EVO 3 Strategy applies the same non-discretionary mechanical timing signals and allocations used for EVO 1 to the unleveraged Rydex NASDAQ 100 Index Fund for long positions and to the same funds as used in EVO 1 for short and cash positions.

TACTICAL ASSET ALLOCATION STRATEGIES (TAA)

TAA is a dynamic investment strategy where PA actively adjusts a portfolio's asset allocation among mutual funds, ETF’s and occasionally stocks. TAA’s goal is to improve the risk-adjusted returns of passive management investing and to avoid stock or bond market meltdowns. TAA evaluates which market sectors or asset classes (stocks, bonds or cash) provide the best opportunity to outperform in a given time. It may involve a blend of different asset classes or entirely one asset class. There is no generally accepted definition of the term “market timing.” However, a broad definition of the term could encompass any TAA strategy PA employs other than “buy and hold.”

Using a database that provides performance and other metrics for all mutual funds and ETFs available for investment, these securities are screened for the best combination of risk and return. Modern Portfolio and Post-Modern Portfolio Theory metrics are used to filter and select the most promising funds and ETFs. Clients are interviewed to determine their level of risk and a variable number of funds fitting those criteria are selected for the portfolio.

Quantitative analysis like that used in the EVO strategies is used to evaluate the most opportune time to be invested in equities, bonds and/or cash. The difference is that TAA uses longer-term models and includes discretionary timing decisions, rather than purely mechanical timing. The exception to this is with respect to high yield bond mutual fund trading. Mechanical models based on quantitative analysis are used to trade these types of mutual funds.

Occasionally, individual stocks are selected for TAA investments. Stocks are chosen based on fundamental, charting, technical analysis, and cyclical information.

Fundamental Analysis studies a company’s revenues, earnings, return on equity, profit margins, and future growth projections by the company and professional analysts, who follow the company, to determine a security’s underlying value and potential for future price movements.

Charting focuses on the effect of previous price and volume movements through studying of graphs, charts and tables of primarily a stock’s daily price and volume to identify patterns in a stock’s behavior to predict future price movements.

Technical Analysis of stocks involves studying supply and demand for a stock through measurements of short interest and insider trading of the stock, its momentum through moving averages and rate of change of the stock price, its regression to the mean and recognition of the aforementioned chart patterns, and cyclical information (i.e.: studying how the economy impacts security performance) to determine what direction, or trend will continue in the future.

B) Material Risks

RISKS UNIQUE TO THE EVO STRATEGIES

EVO 1 and EVO 2 use a leveraged S&P 500 index mutual fund for long positions to magnify the index's exposure 150% daily to increase the potential return on the investment. The use of leverage can also magnify the losses of an investment during a down market and increase the volatility relative to the underlying index. This fund seeks only to magnify the index returns 150% daily. Prolonged use of the fund may not represent such a multiple of the return. The fund's use of derivatives, such as futures, options and swap agreements, may expose the fund's shareholders to additional risks that they would not be subject to if they invested directly in the securities underlying those derivatives.

EVO 3 invests in the Rydex NASDAQ-100® for long positions, which involves risks that may include increased volatility due to the use of options or futures and the possibility that companies in which the fund invests may not be commercially successful or may become obsolete more quickly. There are no assurances that any Rydex fund will achieve its objective and/or strategy. This fund is subject to active trading and tracking error risks, which may increase volatility, impact the fund's ability to achieve its investment objective and may decrease the fund's performance. This fund is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than a diversified fund. Thus, changes in the market value of a single security could cause greater fluctuations in the value of fund shares than would occur in a more diversified fund.

All EVO strategies may employ an un-leveraged inverse S&P 500 index mutual fund for short positions. Inverse funds are used to increase the potential return of the investment when the underlying index decreases in value. Conversely, they would result in a depreciation of the funds value when the underlying index increases in value. Short positions have been made very infrequently.

While investment buy and sell decisions generated by the EVO system may have been successful in the past, or have demonstrated the possibilities of success in research studies, the system may be changed or be ineffective when applied to future market environments. Buy and sell decisions generated by formulas used in EVO are subject to unique and varying risks in addition to the traditional market risks of equity investing. These risks, described below, are attributed to the mechanical nature of the EVO strategy.

1. Patterns of market data and technical indicators that are used in the formulas that have correlated with stock market direction, and were used to identify stock market buy and sell timing decisions in the past, may temporarily or permanently not correlate with the stock market direction in the future. This could lead to losses when using these formulas. To mitigate this risk, the EVO strategy is constantly evaluated to determine whether certain formulas should be changed or omitted when such formulas are no longer providing value.

2. A mechanical trading system may generate a series of consecutive losing signals resulting in the compounding of losses more than the stock market over the same time period.

3. Material market conditions such as unpredictable sudden financial, economic, or political news events that affect the market and reverse the direction of the market with respect to the direction forecast by the mechanical formula may have a short term negative impact leading to losses.

To limit the impact of such losses, EVO currently employs a stop loss in which a decline of greater than 7 ½% in the S&P 500 stock index from the closing value of the S&P 500 on the date of entry to a subsequent closing value would precipitate a liquidation of the EVO fund used the next day for all three EVO strategies. However, there is no assurance that the net trade loss would be 7 ½% or less. While stop loss trades have been infrequent in the past, there is no assurance that the frequency of such trades will not increase in the future.

PA attempts to accomplish the investment objectives of the EVO strategies with short-term trading. Such trading, if successful, will generate taxable short-term gains or losses if realized in a taxable account. All EVO strategies use No Transaction Fee (NTF) funds so there are no transaction costs in utilizing the funds in the EVO strategies.

As with any investment, there can be no assurance that the investment objectives will be obtained or that material loss will not be incurred, and PA does not warrant investment success. Client acknowledges that they are fully cognizant of these risks.

Given the potential risks involved in the EVO strategies such as employing leverage and/or shorting, they may not be suitable for conservative investors.

RISKS UNIQUE TO TACTICAL ASSET ALLOCATION STRATEGIES (TAA)

Occasionally, frequent trading can affect investment performance of TAA strategies since this may increase the potential for taxes in taxable accounts. Patterns of high yield bond fund data and technical indicators that are used in the mechanical formulas that have correlated with high yield bond fund direction and were used to identify high yield bond fund buy and sell timing decisions in the past may temporarily or permanently not correlate with the funds' direction in the future. Likewise, quantitative analysis that identified opportune times to buy and sell equity funds and ETFs in the past may not perform the same in the future.

C) Security Risks

TACTICAL ASSET ALLOCATION SECURITY RISKS

Investing in bond and high yield bond mutual funds, equities and equity mutual funds, and ETFs involves risks, including interest rate risk, credit risk, and reinvestment rate risk. Investing in equities and equity mutual funds involves additional risks, including business risk, market risk and liquidity risk. Investing in international and emerging market stocks, mutual funds and ETFs involves additional risks, including political risk and currency risk. TAA Strategies will sometimes involve frequent trading. Managers of actively managed mutual funds and ETFs may change and with it fund performance may change. Additional risks in investing in equities follows this section.

- 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.

- Credit Risk: is the risk of default on a debt that may arise from a borrower failing to make required payments and includes lost principal and interest, disruption to cash flows, and increased collection costs.

- Reinvestment Rate 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.

- 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.

- 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.

- 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.

- 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.

In addition to the most common risks associated with investing in stocks described above, PA's methodology of selecting stocks may pose additional risks as follows:

- Charting analysis strategy involves using and comparing various charts to predict long and short-term performance of stock trends. The risk involved in using this method is that only past performance data is considered and past patterns may not be indicative of future performance.

- Fundamental analysis concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the stock will fail to reach expectations of perceived value.

- Technical analysis attempts to predict a future stock price or direction based on various patterns and statistics regarding the stock's price, volume, supply and demand. The assumption is that the stock follows discernible patterns and if these patterns can be identified then a prediction can be made. The risk is that stocks do not always follow patterns and relying solely on this method may not work long term.

- Cyclical analysis assumes that the markets react in cyclical patterns which, once identified, can be leveraged to provide performance. The risks with this strategy are two-fold: 1) the markets do not always repeat cyclical patterns and 2) if too many investors begin to implement this strategy, it changes the very cycles they are trying to take advantage of.

Please Note: The investment strategies listed above may not be appropriate for all investors. 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 PA) would be profitable or equal any specific performance level(s). Investment returns and the value of your investment will fluctuate and may lose money. Investing involves risk that you should be prepared to bear. All investments in securities and/or investment products include possible risk of loss of your principal and profits. Additional information regarding the risks associated with the investments that may be owned is more fully explained in the prospectus provided by the investment companies. Please read the prospectus of the individual funds for more information.

Item 9: Disciplinary Information

PA does not have any legal or disciplinary events to disclose.

Item 10: Other Financial Industry Activities and Affiliations

PA does not have any other financial industry activities and affiliations.

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

A) Code of Ethics

PA 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 Advisor's associated persons that are 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, and 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.

You may, or may not, be familiar with the roles fiduciaries play in various legal situations and in certain industries. As a registered investment adviser, PA is a fiduciary to each and every Client.

As fiduciaries, registered investment advisers owe their Clients several specific duties. Per the SEC, these duties include:

- Providing advice that is suitable;
- Providing a full disclosure of material facts and potential conflicts of interest (such that the Client has complete and honest disclosure to make an informed decision about PA's services and investment recommendations);
- The utmost and exclusive loyalty and good faith;
- Best execution of transactions under the available circumstances;
- PA's reasonable care to avoid ever misleading Clients;
- Only acting in the best interest of our Clients

B) Recommendations Involving Material Financial Interests

PA does not recommend that Clients buy or sell any security in which a related person to PA has a material financial interest.

C) Recommendations Involving Securities PA May Also Invests In

PA or any related person(s) may have an interest or position in a certain security(ies) (mostly fixed income and equity mutual funds and ETFs but also including occasional positions in equities) which may also be recommended to a Client. As these situations may represent a conflict of interest, PA has established the following restrictions in order to ensure its fiduciary responsibilities:

1. A director, officer or employee of PA shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, because of his or her employment unless the information is also available to the investing public on reasonable inquiry. No associated person of PA shall prefer his or her own interest to that of the advisory Client.
2. PA maintains a list of all securities holdings for itself, and anyone associated with this advisory practice. These holdings are reviewed on a regular basis by Mr. Paul, President.
3. PA requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to termination.

D) Investing Personal Money in the Same Securities as Clients

PA may buy or sell the same securities that are bought or sold for Clients. Likewise, the firm's related persons and supervised persons including officers and members of the Board of Directors, and all employees, are also permitted to buy or sell the same securities for their personal and family accounts that are bought or sold for Client accounts. These personal securities transactions by such persons or by the firm for its account may raise potential conflicts of interest when they trade in a security that is owned by a Client or considered for purchase or sale for a Client in one of our strategies.

PA has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- Require our employees to act in the Client's best interest
- Prohibit favoring one Client over another
- Require that no person employed by, controlled or supervised by PA purchase or sell any security prior to a transaction being implemented for an advisory account on the same day, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts for that day.

Item 12: Brokerage Practices

A) Factors Influencing Broker Dealer Recommendations

At times, PA may suggest a Broker to a Client. While Clients may request a service provider of their choice, PA cannot guarantee the best execution in such cases. Ultimately, the Client remains responsible for the broker-dealer selection and account application.

Broker-dealers 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. For ETFs, the ability to obtain the most favorable executions is considered. Mutual funds that charge 12b-1 (annual marketing or distribution fees) may be used, but PA does not receive any portion of said fee/commission and there is no additional research fee. Such funds may be used even if the same fund is available without the 12b-1 fee. Funds with 12b-1 fees are generally available at the broker dealer platform with no transaction fees (NTF), whereas no-load funds without the 12b-1 fees usually incur a transaction fee. Since the transaction fees are a fixed amount regardless of the size of the purchase, NTF 12b-1 fee funds may be more cost effective at times. Another factor that is taken into consideration is the expected length of time that the fund is expected to be held. For even large size purchases, it may be more cost effective to the Client to utilize an NTF fund with a 12b-1 fee versus a no-load fund with a transaction fee. When the same ETFs are purchased or sold for multiple Client accounts, the transactions are aggregated in a block account for an omnibus transaction to affect a uniform price for all accounts. As always, full disclosure is exercised and Clients maintain full discretion.

1. Soft Dollars and Other Considerations

Generally speaking, soft dollars are benefits (primarily investment research and brokerage services) that investment advisers may receive in exchange for directing trade activity to a particular brokerage firm. PA receives general research, business- related products and back- office administrative support services in addition to execution from its recommended broker/dealers in connection with Client securities transactions. Therefore, PA does receive benefits from its selected broker-dealer firms that it would not otherwise receive if it were not a registered investment adviser.

PA's service providers make available certain account trading software to advisers. Additionally, the adviser may receive traditional "non- cash benefits" from service providers such as customized statements; receipt of duplicate Client confirmations and bundled duplicate statements; access to a trading desks servicing adviser participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to Client accounts; ability to have investment advisory fees conveniently deducted directly from Client accounts; access to an electronic communication network for Client order entry and account information; access to mutual funds which generally require significantly high minimum initial investments or those that are otherwise only generally available to institutional investors; reporting features; receipt of regulatory compliance communications; and perhaps discounts or free access to industry- related conferences, seminars or workshops. The adviser would generally not receive any considerations above paid admission and customary meals.

2. Brokerage for Client Referrals
PA receives no referrals from a broker/dealer or third party in exchange for using the services offered by that broker/dealer or third party

3. Directed Brokerage
PA does not recommend, request, or require Clients to direct PA to execute transactions through a specified broker-dealer.

Item 13: Review of Accounts

A) Periodic Review of Client Accounts

All securities held in various Client accounts are reviewed on a daily, monthly and quarterly basis by Richard M. Paul. All accounts participating in the same investment strategy are managed in a similar manner. The daily review focuses on the analysis of all investment positions with respect to: price action of the securities, portfolio objectives in terms of risk and reward parameters, U.S. and global market conditions, and performance of alternative securities. Individual accounts are reviewed before and after a trade is made. 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 and the overall objective of the Client and strategy used for that portfolio. Periodically, Mr. Paul reviews reports of realized and unrealized capital gains at custodians where these reports are provided.

B) Non-Periodic Review of Client Accounts

Events triggering additional reviews include Client requests, change in Client objectives or financial status, U.S. and world economic and political events, and any other events that may affect investment positions.

C) Client Reports

PA provides quarterly reports to all Clients showing their total net assets, management fees and the way the fees were computed. The Custodian provides confirmation statements of purchase and sales transactions, and provides monthly statements showing all transactions in their account including but not limited to purchase and sales of securities, dividends, interest income and interest expense (margin interest) if applicable, capital gains distributions, their holdings, total net assets and any management fees deducted by PA. The custodian also provides year-end consolidated 1099 and Form 5498 statements as applicable providing tax information as required by the IRS.

It remains the Client’s responsibility to advise PA (and/or the Solicitor that introduced the Client to PA), 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 PA by a solicitor, the Client should direct all such communications to the Solicitor.

Item 14: Client Referrals and Other Compensation

A) Economic Benefits for Investment Advice from Non-Clients

PA does not receive any economic benefit for providing investment advice or other advisory services to PA's Clients from someone who is not a Client.

B) Client Referrals via Solicitors

PA may enter 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 advisory fees it collects ranging from 30% to 50% of the fee paid by Clients to PA 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 Solicitor to: (1) provide the Client with a separate solicitor's written disclosure statement, 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 any advisory contract, and (2) provide PA with a signed and dated acknowledgment of receipt of the same disclosure statement by the Client. The disclosure statement shall provide: (1) the scope of the Solicitor's activities, (2) a covenant by the Solicitor to perform such activities consistent with instructions of the investment adviser and in compliance with the Investment Advisers Act of 1940 and associated rules, (3) fees paid to the Solicitor for the referral, (4) a covenant by the solicitor to provide the Client with a copy of the investment adviser's Form ADV Part 2A, the adviser's privacy policy, and the separate written solicitor disclosure statement. PA may also reimburse a Solicitor for expenses incurred by such representative when marketing Potomac's investment advisory services.

Item 15: Custody

Client assets will be held by a qualified custodian. PA does not have physical custody of, or title to a Client's funds at any time, but we may be deemed to have custody when you authorize us to deduct our fees directly from your account. Clients will receive a monthly statement directly from the custodian where the Client's assets are held. Discretionary, asset-based fee Clients will receive a quarterly statement/invoice from PA showing the assets upon which the fees are based and, the way fees are calculated, and the amount of the fees. Clients should review this statement and compare the assets on the statement (before the addition of any accrued distributions, which are shown separately and paid in the following month), to the custodian's month ending market value corresponding to the same month as the invoice. If there is a discrepancy between the statements, please contact your Solicitor or PA, immediately.

Item 16: Investment Discretion

PA maintains limited discretion. In other words, PA has the authority to determine the securities and amount to be bought or sold in a Client's account. The Investment Management Agreement limits this discretion to investment selection and execution, as well as distribution of funds to the address of record. Upon written instructions, Clients may exclude the purchase, sale or short sale of any of the securities. The discretionary authority the Client grants us does not provide us the ability to choose the custodian through which transactions for the Client's account will be executed. Additionally, our discretionary authority does not provide us the ability to withdraw funds from the Client's account (other than to withdraw our advisory fees, which may only be done with the Client's prior written authorization).

Item 17: Voting Client Securities

Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. PA does not vote proxies as indicated in the Investment Management Agreement. If a Client directs custodian to send proxies to PA they will not be voted on behalf of the Client. However, if a Client has a question about a proxy or solicitation they received directly from their custodian or transfer agent they may contact PA by telephone or email but ultimately the Client is responsible for voting or not voting the proxy if they decide to do so.

Item 18: Financial Information

A) Balance Sheet

A balance sheet is not required because PA does not require or solicit prepayment of more than $1,200 in fees per Client, six months or more in advance.

B) Financial Conditions Reasonably Likely to Impair PA's Ability to Meet Commitments to Clients

PA has no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our Clients.

C) Pending or Past Bankruptcy

PA has not been the subject of a bankruptcy petition.

Item 19: Requirements for State-Registered Advisers

A) Principal Executive Officers

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

B) Outside Business Activities

Richard M. Paul, President and CIO of PA, is also a managing member of Triple Creek Mountain Properties, LLC, a real estate venture. Mr. Paul spends an immaterial amount of his time in this role.

C) Performance Based Fee Description

PA does not receive any performance based fees.

D) Disclosure of Material Facts Related to Arbitration or Disciplinary Action Involving Management Persons

No management persons of PA have any disclosures to report.

E) Material Relationship Maintained by PA or Management persons with Issuers or Securities
There are no material relationships with issuers of securities to disclose.

ANY QUESTIONS: PA Chief Compliance Officer, Richard M. Paul remains available to address any questions that a Client or prospective Client may have regarding the above disclosures and arrangements.

Item 20: Privacy Notice

The following notice is furnished to Clients and prospective Clients in compliance with SEC Regulation S-P: PA collects nonpublic personal information about Clients from the following sources:

- Information received from Clients on applications, contracts or other forms

- Information about Client account transactions with us or others

We do not disclose any nonpublic personal information about Client to anyone, except to Client's agents or as permitted by law. (We may disclose information to cooperate with legal authorities or to protect our rights and interest.) If Client decides to close accounts or otherwise become an inactive Client, we will adhere to the privacy policies and practices as described in this notice. PA restricts access to Client personal and account information to those employees who need to know that information to provide products or services to Client. PA maintains physical, electronic and procedural safeguards to guard Client nonpublic personal information. Information on the disciplinary history (if any) and registration of PA and associated persons may be obtained by writing to the various State Regulatory Commissions or the United States Securities and Exchange Commission, Washington D.C. 20549 or by inquiry to PA's Chief Compliance Officer.

Form ADV - Part 2A: PA

Form ADV Part 2B

Brochure Supplement

Richard M. Paul
CRD #1603141

Potomac Advisors, Inc.

7215 Teal Creek Glen
Lakewood Ranch, FL 34202

Phone: 941-870-3426

03/31/2017

This brochure supplement provides information about Richard M. Paul that supplements the Potomac Advisors, Inc. brochure. You should have received a copy of that brochure. Please contact Richard Paul if you did not receive Potomac Advisors, Inc. brochure or if you have any questions about the contents of this supplement.

Additional information about Richard Paul is available on the SEC's website at www.adviserinfo.sec.gov.

Educational Background and Business Experience

Richard M. Paul was born in 1943. Mr. Paul holds a Bachelor's degree in Electrical Engineering from New York University. He founded and served as President and Chief Portfolio Manager of Potomac Fund Management from September 1987 to November 2003. Since November 2003, Mr. Paul has been employed by Potomac Advisors, Inc. in the capacity of President, CIO, and Chief Compliance Officer.

Disciplinary Information

Richard M. Paul has not been the subject of any legal or disciplinary event initiated by a governmental entity or regulatory body.

Other Business Activity

Richard M. Paul, President and CIO of Potomac Advisors, Inc. is also a managing member at Triple Creek Mountain Properties, LLC, a real estate venture. Mr. Paul spends an immaterial amount of his time in this role.

Additional Compensation

There is no additional compensation to disclose.

Supervision

Richard M. Paul is the President of Potomac Advisors, Inc. and, therefore, has no supervisor. Potomac Advisors, Inc. has a written Policies and Procedures Manual which is evaluated and updated once a year. The purpose of the Policies and Procedures Manual is to set standards and internal controls for the firm, its employees, and its business. These policies and procedures are designed to prevent, detect, and correct any violations of regulatory requirements. They also include other areas such as an outline of the company's best execution practices, insider trading policy, etc. As President and Chief Compliance Officer of Potomac Advisors, Inc., it is Richard M. Paul's responsibility to ensure that all employees are familiar with and follow the Policies and Procedures as set forth in the manual.