

## **Part 2A of Form ADV: *Firm Brochure***

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This Brochure provides information about the qualifications and business practices of Centaurus Financial, Inc. ("Centaurus" or the "Firm"). If you have any questions about the contents of this Brochure, please contact us at 714-456-1790. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any Self Regulatory Organization ("SRO") or state securities regulatory authorities.

Additional information about Centaurus is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using our unique identifying number, known as a CRD number. Our Firm's CRD number is 30833.

## **Item 2    Material Changes**

The SEC adopted "Amendments to Form ADV" in July 2010. This Firm Brochure ("Brochure"), dated 3/30/2011, is the Firm's disclosure document, prepared according to the SEC's amended requirements. This Brochure is in narrative form and is aimed at presenting information in a more meaningful and transparent way.

At least annually, clients will be provided with a summary of any significant changes to the Brochure. Clients will receive the summary within 120 days of the close of the Firm's fiscal year. Clients may also receive information about other important changes, as necessary, throughout the year.

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#### **Item 4     Advisory Business**

Centaurus is a SEC registered investment adviser and FINRA member broker/dealer with its principal place of business in Anaheim, California. The Firm commenced operations in 1992. The Firm's principal owner is the Federation of Financial Services, owning more than 75% of the Firm. All of the Firm's advisory services are offered through an Investment Adviser Representative ("IAR"). IARs are reasonably available to provide advice, make recommendations, and execute transactions, as applicable. As of 03/28/2012, the Firm through its IARs has assets under management ("AUM") of \$26,289,124 on a discretionary basis and \$443,651,973 on a non-discretionary basis.

The Firm is registered in all 50 states and offers a variety of advisory services through its IARs. Each IAR is an independent contractor and is appropriately registered to provide advisory services through the Firm. The Firm's IARs may also be registered securities representatives of the Firm, and/or licensed insurance agents.

#### **General Services**

The services provided through the Firm primarily include financial planning, asset management, and engaging third-party advisers to manage client assets, as appropriate. While this Brochure discusses the general services offered by the Firm, each client will work with an IAR to determine the appropriate services to be provided based on the uniqueness of each client's investment objectives and financial situation.

#### **IAR as Portfolio Manager**

As Portfolio Manager, an IAR will manage client's investments based on the individual needs of the client and may recommend various asset management options offered by the Firm.

#### **Classic Plus Programs**

Classic Plus is the Firm's fee based asset management program where an IAR may manage client accounts. After consultation with their IARs, clients may select services appropriate for them and each client and IAR will enter into an agreement for asset management services. IARs may assist clients with the development of an investment policy statement ("IPS") based on factors such as time horizon, risk tolerance, liquidity needs, prior investment history, existing assets, and client preferences.

The Alpha, Beta, Delta and Omega Programs are managed brokerage account options within the Classic Plus Program. For Classic Plus managed accounts the Program offers multiple clearing and custody options, depending on the program selected. Clearing and custody is offered either through Pershing, LLC a subsidiary of The Bank of New York Mellon Corporation, One Pershing Plaza, 4th Floor, Jersey City, NJ 07399 ("Pershing"), or TD Ameritrade ("TDA") a subsidiary of Toronto Dominion Bank, TD Ameritrade, 1005 N. Ameritrade Place Bellevue, NE 68005, or Charles Schwab & Co., Inc, Phoenix Operations Center, 2423 E. Lincoln Drive, Phoenix, AZ 85016-1215 ("Schwab") in a limited capacity. If a client chooses to clear trades through a different custodian clearing firm, Centaurus will not be able to accommodate the client with one of the Program's managed account options. Client will enter into, or authorize Centaurus to open an Account, with the chosen custodian at the time Client enters into a management agreement.

In Classic Alpha, Beta, Delta and Omega accounts, IAR may construct a portfolio containing stocks, bonds, options, UITs, REITs, certain types and classes of mutual funds and cash and/or cash equivalents.

#### **Classic Variable Annuity Management**

In the Classic Variable Annuity Management program, IARs may manage variable annuity sub-accounts. After consultation with their IARs, clients may select appropriate services and enter into an agreement for asset management services. Management of variable annuity sub-accounts is limited to the sub-accounts designated by the annuity company. Clients may allocate account assets within the

annuity sub-accounts based on their investment objectives and financial situations.

An IAR, in the capacity of a registered representative, may have sold the variable annuity to the client and received a commission. In such cases, IARs are prohibited from charging a fee for managing the variable annuity sub-accounts for twelve months from the date of purchase. In some cases, fees for managing the sub-accounts may be deducted from the annuity. Fee deductions are generally considered distributions from the annuity, and may affect the annuity contract terms. Given the complexity of many variable annuity contracts, including elected guarantees and/or riders, internal management fees, and surrender charges, among other things, clients should discuss the contract terms of their annuity with their IAR to determine the impact fee deductions will have on contract terms. Clients may receive an invoice for payment of fees, or, subject to certain restrictions, elect to have fees deducted from a different account.

### **Classic Variable Life Management**

In the Classic Variable Life Management program, IARs may manage variable life sub-accounts. Management of variable life sub-accounts is limited to the sub-accounts designated by the insurance company. Clients may allocate account assets within the sub-accounts based on their investment objectives and financial situations. Fees for services cannot be debited from the account therefore client either must designate another program account to pay for fees or client will elect to be invoiced for services.

### **Classic Mutual Fund Management**

In the Classic Mutual Fund program, clients select a portfolio of mutual funds from the same family of funds to be managed by their IAR. In these accounts, the issuing mutual fund company may restrict the investment options available as well as the rebalancing or reallocation of the accounts. An IAR, acting in the capacity of a registered representative, may have sold the mutual fund to the client and may have received a commission on the purchase. In such cases, IARs are prohibited from charging a fee for managing the mutual fund for twelve months from the date of purchase. In some cases, fees for managing the mutual funds may be deducted from the fund itself.

Additional charges such as internal fund fees and exchange fees may be assessed against the account. Client will bear all internal investment expenses and or fees incurred by the Account to include sales charges, management fees, and transaction charges. These additional charges, fees and expenses are separate and apart from the Advisory Fee assessed against the Account. Information regarding any internal charge, fee or expense is available in the Issuer's prospectus.

### **Consolidated Reporting/Performance Reporting**

In addition to account statements provided by the account custodian, clients will also receive quarterly performance reports noting fees, holdings, account performance, etc. Performance reports are provided for informational purposes only and are not an official Centaurus record. Reports are prepared using sources and information believed to be reliable and are not a guarantee of positions owned, or of the market value of such positions. Although great effort is taken to provide accurate information, these reports should not be used for tax or legal purposes. Clients should compare Program reports against the statements received from the custodian for any inconsistencies and should bring any questions to the attention of their IAR.

### **Retirement Plan Services**

The Firm, through its IARs, may also provide services to pensions, 401(k) plans, profit sharing plans and other retirement saving vehicles (the "Plan"). IARs will review with the client the expectations, goals and attributes of the Plan to determine the course of action to be taken.

IARs may formulate and present recommendations to assist the Responsible Plan Fiduciary ("RFP"). The IAR may prepare a summary of services recommended, including employee plan enrollment, employee education seminars, and assisting the RFP with service provider selection and review.

In providing advice to ERISA qualified Plans, the IAR is not permitted to have discretion or management authority over plan assets nor can they be a "named fiduciary". As such, the IAR is limited to providing non-discretionary investment advice. The IAR may recommend placing assets with a Third Party Manager who may be given additional authority by the Plan. Any such services provided by a Third Party Manager(s) are subject to a separate agreement executed between the Plan and the Third Party Manager(s).

IARs through the Program may provide Program services to self-directed retirement plan accounts, such as 401(k) plans, profit sharing plans and other retirement savings vehicles. IAR and Plan Participant/Client will develop a portfolio of various holdings designed to meet the needs of the Plan Participant/Client. In Classic Alpha, Classic Beta and Omega accounts, IAR may construct a portfolio containing stocks, bonds, options, UITs, REITs, certain types and classes of mutual funds and cash and/or cash equivalents.

In providing advice to ERISA qualified Plans, the IAR is not permitted to be a discretionary manager or "named fiduciary". As such, the IAR is limited to providing non-discretionary services.

### **Selection and Review of Third-Party Money Managers**

IARs of the Firm may offer the services of a selection of third party money managers ("TPM") to clients.

TPMs are investment advisers that are not affiliated with the Firm that offer advisory services to referred clients. Each TPM may sponsor one or more investment programs. After consultation with a client, the IAR recommends an appropriate TPM and program and provides the client with the TPM's Disclosure Brochure and other information as applicable. The client decides on the services the TPM will provide to the client under a separate agreement. As applicable, IARs may assist clients with the completion of the TPM's risk tolerance questionnaire. The Firm and the IAR may receive a fee from the TPM for the referral. Fee sharing arrangements between the Firm, the IAR and the TPM are disclosed at the time the IAR recommends the TPM.

### **TPM Management**

TPMs may manage accounts in a variety of ways and may use a variety of securities and/or investment models. The use of model asset allocations is not limited to a specific product or service.

One of the more advanced programs that a TPM may offer to clients is a Turn-Key Asset Management Platform ("TAMP"). TAMPs are wrap programs where a client generally pays a fee that includes management, brokerage, performance reporting, and certain other services. Client portfolios can have multiple managers managing assets together in a single account, or may have individual managers assigned to manage a particular asset class in a separate, segregated account.

### **TPM Disclosures**

In addition to this Brochure, clients receive the Disclosure Brochure or other disclosure document(s) for each TPM the IARs recommends.

### **TPM Due Diligence and Review**

TPMs that the Firm approves for IARs to offer to clients undergo a due diligence process. This process can consist of a review of management style, control persons, history, custodial relationships, and/or other factors. The Firm periodically reviews TPMs and if the Firm or IAR, believe that a TPM, or any of its programs are no longer a suitable for clients, IARs may recommend that clients choose another investment program. IARs will contact clients at least annually discuss program accounts, as well as the continued appropriateness of the TPM program for the client. Annual reviews give clients and IARs the opportunity to discuss any changes in clients' financial status and investment objectives that may require an adjustment to the client's investment program selection. Clients are responsible for notifying their IAR any time there are changes to their financial status or investment objectives that

would impact the management of the account.

## **Financial Planning Services**

The Firm offers financial planning services that involve evaluation of the client's financial needs. Through an initial consultation with the client, the IAR gathers information regarding the client's investment objectives and financial situation, which may include current investments and assets, tax status, insurance coverage, liquidity, risk tolerance, retirement goals, and estate needs. After the fact gathering process is complete, the IAR will use the data to develop planning recommendations and will present them to the client.

There is no obligation to implement planning recommendations through the Firm or any of its Representatives. If the client chooses to implement any of the recommendations through the Firm, implementation will be under a new agreement separate and apart from the financial planning services agreement and any fees paid for financial planning services.

The IAR may also offer modular financial planning services that include financial planning recommendations such as estate planning, retirement planning, or planning for specific savings goals. Payment for financial planning services can be negotiated on an hourly or flat rate basis.

In addition to financial planning, some IARs may be licensed or able to provide other professional services such as legal, real estate or accounting services. Such services, if provided to client, will be provided under a separate agreement and are not related to any services provided through the Firm.

## **Item 5 Fees and Compensation**

### **Portfolio Management Fees**

When participating in the Program, clients pay a Wrap Fee which is generally a fee that includes advisory, brokerage and custodial services. Transactions in the Program are usually executed without sales commissions or markups. Since the cost of participating in the program may be more or less than the cost of participating in similar programs or the cost of paying for Program services separately, clients should consider among other things, the amount of the Program fee, the administrative costs, as well as the types and quality of the services to be provided. Any fees paid or costs absorbed will have an effect on account returns. Clients should be sure to read all the information they are given, including disclosure brochures, product information etc. in determining which products and services to choose. IARs are reasonably available to address any questions clients have regarding Program fees and charges.

Fees are negotiable and may differ from client to client or within accounts or portfolios of a single client. Program fees are calculated based on the market value of the designated assets in the account and may vary based on the complexity, size and number of accounts. Fees are charged quarterly in advance by direct account debit or by invoice. Client may, with certain restrictions, elect to have fees deducted from a different account.

Advisory fees charged may be calculated on a tiered or flat rate schedule. A flat rate schedule means a set percentage will be assessed against the total value in the account while a tiered rate schedule means that fees are blended; i.e., as the portfolio value reaches a new threshold, as noted in the table below, the assets greater than the prior threshold are charged a successively lower rate.

Tier	Portfolio Value	Maximum Client Fee
1	\$50,000 - \$249,999.99	2.25%
2	\$250,000 - \$499,999.99	2.00%
3	\$500,000 - \$999,999.99	1.75%
4	\$1,000,000 - \$1,999,999.99+	1.50%
5	\$2,000,000,000 – and above	1.50%

In addition to assessing fees based on a percentage of the designated assets held in the account, portfolio management fees may also be paid as a fixed fee negotiated between the client and the IAR on a case-by-case basis. This fee is generally an annualized dollar amount, paid in quarterly installments.

A portion of the fee is paid to the Firm for administrative and other costs. In certain limited circumstances, a fee may be negotiated outside the ranges stated in the fee schedule, which may result in higher or lower fees than if the fee schedule was used.

Accounts that fall below the stated account minimums established for participation in the Program may be subject to a minimum administrative fee of \$25.00 per quarter for any quarter in which the account minimum is not met. The Firm may waive this administrative fee in its sole discretion.

#### **Other Fees Not Included**

Costs excluded from the wrap fee calculation can include certain transaction charges, internal mutual fund or UIT expenses, sponsor exchange or redemption charges, custodial fees, and other fees as applicable. Brokerage expenses are disclosed in the Account Management Agreement. Any internal expenses are disclosed in the mutual fund or UIT prospectus, or other disclosure documents provided by a product sponsor. The Firm and its IARs may receive all or a portion of these additional fees the receipt of which may create a conflict of interest given the IAR may have an incentive to sell a product with upfront or trail commissions over one without any commission. Trail commissions in the Program accounts are not paid to IARs. If a commissioned product is included as part of the portfolio composition, the wrap fee is not assessed against the value of the product, or a waiting period may be imposed during which the wrap fee is not charged.

Clients may purchase investments, such as mutual funds directly from the product sponsor without the assistance of IAR. However, the client may not receive the value of the services provided by the IAR which is designed to help the client determine which investments are most appropriate. Clients are under no obligation to purchase any products or services through the Firm.

#### **Account Minimums**

Centaurus requires a minimum deposit of \$25,000.00 in cash and/or securities to participate in the Program. Related accounts of lower value may be linked to the primary account in consideration of other factors, such as anticipated contributions to the account, or holdings in other managed accounts.

#### **Retirement Plan Fees**

The Firm is deemed to be a fiduciary under the Employee Retirement Income Security Act of 1974 (“ERISA”) to clients that are covered retirement plans or plan participants. As such, the Firm is subject



to certain obligations that can include restrictions concerning certain transactions of forms of compensation.

Depending on the program, account fees may be billed either in advance or in arrears subject to the same fee table and parameters as noted above. Advisory fees information is also disclosed in the management agreement.

### **Third-Party Money Manager Fees**

Centaurus may offer approved Third Party Managers ("TPM") to clients. Account management fees paid to the TPM are negotiable subject to each TPM's stated fee ranges. The Firm and its IARs may receive a portion of the advisory fee paid to a TPM for referring clients to a particular TPM. The portion of the advisory fee paid for the referral does not increase the fee paid by the client to the TPM.

Fees are generally paid either quarterly or monthly in advance or in arrears. The fees to be paid and method of calculation are outlined in the agreement the client signs with the TPM and typically range between 1% and 3% of AUM annually depending on the size and complexity of the account. Clients should refer to the TPM's disclosure document for information regarding its operating parameters including fees, billing practices, minimum required investments, termination of client agreements, and other important information. Clients will receive a separate written fee disclosure describing the referral fee paid by the TPM to the Firm.

### **Financial Planning Services Fees**

Fees for Financial Planning are determined based on the nature of the services provided and the complexity of the clients' circumstances. Fees may be based on an hourly or flat rate. Fee rates are negotiable, and are agreed upon prior to the IAR and the client entering into a financial planning services agreement. Under some circumstances, an IAR may request an initial payment to begin the planning process. The Firm may not accept advanced payments of \$1,200 or more for work which cannot be completed within six months.

### **Financial Planning Fee Offset**

Fees paid for financial planning services are negotiable and can take into consideration potential compensation earned by the IAR in connection with implementation of the recommendations contained in the financial plan. Should the client choose to implement any of the recommendations through the IAR, any compensation received for implementation is separate and distinct from any fees paid for financial planning services.

### **Termination of the Advisory Relationship**

Advisory services agreements may be terminated by the Firm or the client, at any time, for any reason, upon written notice, subject to the terms of the agreement. Any pre-paid unearned fees shall be refunded to client on a pro-rata basis based on the effective date of the termination.

### **Item 6 Performance-Based Fees**

Centaurus and its IARs do not charge performance based fees. However, some TPMs may charge such fees. Client should thoroughly review the TPMs Disclosure Brochure, disclosure documents, or other materials, for further information on performance based fees prior to placing assets with the TPM.

### **Item 7 Types of clients**

The Firm, through its IARs, provides services to a variety of clients including high net worth individuals, individuals other than high net worth individuals, pension and profit sharing plans and plan participants, charitable organizations, corporations, and other business entities.

## **Item 8    Methods of Analysis, Investment Strategies and Risk of Loss**

IARs recommend investment strategies to clients based on the financial circumstances and investment objectives of each client. Recommendations can be based on various forms of analysis and may include those listed below.

### **Fundamental Analysis**

Fundamental analysis attempts to measure the value of a security by focusing on characteristics of the issuing company including its financial statements, earnings record, industry competitors, market penetration, and its competitive advantages, among others.

A security's calculated value, based on fundamental analysis, can be compared with the market price of the security to determine whether the security is under or overpriced, and whether to recommend a purchase or a liquidation of the security.

Fundamental analysis does not attempt to anticipate market movements. This presents a potential for market risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

### **Technical Analysis**

Technical analysis takes into consideration past market movements and applies that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company.

### **Charting**

Charting is a type of technical analysis where charts of market and/or security activity are used in an attempt to identify upward or downward trends in market movement, and to determine how long particular market trends might last.

### **Cyclical Analysis**

Cyclical analysis is a type of technical analysis that measures the movements of a particular stock in relation to the overall market in an attempt to determine the price movement of the security.

### **Asset Allocation**

Rather than focusing primarily on securities selection, asset allocation attempts to identify an appropriate ratio of equity securities, fixed income instruments, and cash, or cash equivalents, suitable for the client based on their investment goals and risk tolerance.

### **Risks for All Investment Strategies and Forms of Analysis**

All investment strategies and types of analysis have limitations. Therefore, performance results cannot be guaranteed. Investment strategies and methods of analysis rely on the assumption that the companies issuing the recommended securities, the rating agencies that review these securities, and sources of public information about these securities, are providing accurate and unbiased data. In general, these sources of information are believed to be reliable, however, there is always a risk that any analysis may be compromised by inaccurate or misleading information. Investment strategies and types of analysis other than those noted herein may also be utilized.

## **Item 9    Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

The following are disciplinary events relating to our Firm and/or our management personnel:

In 2004 the NASD found the Firm failed to timely file certain reportable events as required by conduct

rule 3070(B) and certain reportable statistical and summary information as is required by conduct rule 3070(C). Without admitting or denying the findings, the Firm paid a fine of \$10,000.

In 2009 FINRA found the Firm failed to: adequately safeguard certain customer information on a computer fax server; adequately respond to information that unauthorized persons had accessed the system; adequately investigate the scope of the unauthorized access and sent inaccurate notification of the access to affected customers and representatives, thus failing to comply with Regulation S-P and FINRA rules 2010, 2011, 2211 and 3010. Without admitting or denying the findings, the Firm paid a fine of \$175,000.00 and implemented the requested corrections which included corrected notifications of the unauthorized access persons to all previously notified customers and brokers, offered affected people one year of free credit monitoring, and certified to FINRA within 90 days that the Firm's policies and procedures are in compliance with privacy requirements.

In 2010, a FINRA review found Centaurus did not report the correct time of trade to the real-time-transaction reporting system (RTRS) for certain municipal securities transactions and also did not report certain transactions to the RTRS within fifteen (15) minutes of the time of as required by MSRB Rule G-14. Without admitting or denying the findings, the Firm was fined \$10,000 and was required to revise its written supervisory procedures with respect to MSRB reporting.

In 2011, the Nevada Securities Division alleged that Centaurus did not comply with one of the provisions of an agreement it entered into regarding the supervision of one of its Registered Representatives by not notifying the Division in writing within ten (10) calendar days of a change in the Registered Representative's supervisor. Without admitting or denying the statement of facts and conclusion of law contained in the administrative order, Centaurus consented to the entry of the order and a fine of \$5,000 was paid to settle the matter.

## **Item 10 Other Financial Industry Activities and Affiliations**

### **Firm Registrations**

Centaurus is a federally-registered investment adviser and a FINRA member broker-dealer.

Pacific Point Securities, an affiliated FINRA member broker/dealer. Pacific Point is a managing broker/dealer providing support services to bring securities products and services to market. Pacific Point does not currently have any clients.

Alpha Centauri Wealth Management is federally-registered investment adviser. Alpha Centauri Wealth Management currently has no clients, investment adviser representatives or assets under management or administration.

Centaurus IARs are also Registered Representatives of the Firm. As such, their investment recommendations are limited to investment products and services approved by the Firm. Other suitable investment products may be available through other financial services firms at lower costs. A conflict of interest exists because of IARs' duty to provide unbiased advice to clients and the potential receipt of fees, or commissions on transactions effected through Centaurus.

### **Management Personnel Registrations**

Certain management personnel of the Firm are separately licensed as Registered Representatives of Pacific Point Securities, an affiliated FINRA member broker/dealer. These individuals, in their separate capacity, may effect securities transactions for which they may be compensated.

Owners of Centaurus and its parent company, The Federation of Financial Services, Inc., also own Alpha Centauri Wealth Management, a federally-registered investment adviser.

Management personnel of Centaurus may also conduct business in other industries that could be considered material to their functions with the Firm.

Certain members of Firm management are licensed attorneys with the California State Bar. None of

these individual provides direct legal services to any Centaurus Clients.

Certain Firm management personnel are agents of various insurance companies. As such, these individuals may receive compensation resulting from the sale of insurance products to clients. Any compensation would be disclosed to the client at the time of sale. Clients are not obligated to purchase insurance products from any Adviser and any insurance product is implemented at the discretion of the client.

Certain Firm management personnel are Real Estate Brokers licensed with the California Department of Real Estate. None of these individuals has any current clients in this capacity.

#### **Additional Compensation**

The Firm also has marketing and due diligence agreements with certain of its TPMs and product sponsors ("Sponsors") to offset due diligence and conference participation costs. Remuneration is generally a fee based on the total AUM the Firm has placed with the Sponsor. The payment of such compensation comes from the Sponsors net earnings.

### **Item 11 Code of Ethics, Participation or Interest in client Transactions and Personal Trading**

Centaurus' Code of Ethics sets forth standards of conduct that are expected of certain employees and representatives of the Firm. The Code addresses conflicts that may arise from personal trading activities, among others, and requires reporting and review of certain personal securities transactions. The Code is designed to promote ethical standards of compliance for covered employees and representatives. Centaurus will furnish clients with a copy of its Code of Ethics upon request.

### **Item 12 Brokerage Practices**

#### **Block Trading**

An IAR that is approved for discretion may make block trades for multiple clients. Block trading allows the IAR to buy or sell a large amount of a particular security in one trade. Block trades may reduce trade costs by spreading the cost among all of the accounts involved in the trade. In some cases, a block trade may not be completed in a single transaction or day. In that case, each account involved will generally receive a pro-rata number of shares for the order filled and the price received will be the average price of all trades. Under certain circumstances, pro-rata allocation to accounts may be adjusted.

When making block trades, IARs consider each client's investment objectives and financial situation. IARs that block trade may be buying or selling a security for a model allocation. In this regard, they will aggregate orders for the selected securities and will make block trades for the total share amounts.

#### **Brokerage Services**

Centaurus makes every effort to provide clients with the most timely and cost effective trade execution. However, the ultimate price paid or received for a security transaction will depend on the custodian clearing firm selected at the time the account is opened. Differences in price the client realizes can occur because each custodian may receive a different price for the transaction it executes. While clients are free to execute trades through any broker/dealer they choose, Centaurus generally executes and clears advisory transactions through Pershing, LLC and TDA for its Classic Plus program accounts, and uses Charles Schwab & Co., Inc, Phoenix Operations Center, 2423 E. Lincoln Drive, Phoenix, AZ 85016-1215 ("Schwab") in a limited capacity, for certain accounts. If a client chooses to clear trades through a different custodian clearing firm, Centaurus will not be able to accommodate the client through its advisory programs.

For trading and custodial services, Centaurus offers multiple options. Only one option may be chosen for an account, and not all options are available for all advisory programs. The IAR and client will discuss the client's investment objectives, financial situation, risk tolerance and trading preferences,

and the client will select the most appropriate solution. Transaction costs are assessed accordingly.

- Client may elect to use Pershing as account custodian and pay an individual charge for each transaction as it occurs.
- Client may elect to use Pershing as account custodian and the IAR will pay an individual charge for each transaction as it occurs.
- Client may elect to use Schwab as the account custodian and pay an asset based portion of the management fee to Schwab for trading costs.
- Client may elect to use TDA as account custodian and pay TDA a portion of the account management fee for a maximum of 100 trades per account, per 12 month cycle, from account opening.

Since clients may have multiple accounts, and may use more than one of the trading options listed above, the actual cost of particular trades may differ. Clients should carefully review the information provided regarding transaction costs associated with each custodian and each of the trading options listed above. Under its agreements with Pershing and TDA, the Firm has access to products and services that support the Firm's advisory business, such as practice management tools or reporting services.

CFI participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA. TD Ameritrade is an independent [and unaffiliated] SEC-registered broker-dealer. TD Ameritrade offers to independent investment Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. CFI receives some benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Item 14 below.)

## **Item 13 Review of Accounts**

### **Account Review**

IARs contact their clients at least annually to review their accounts and to determine the continued appropriateness of the program for the client. Annual reviews give clients and IARs the opportunity to discuss the client's financial status, investment objectives, or personal matters, and any changes that may require an adjustment to the client's account strategy or program selection. Clients are responsible for notifying their IAR any time there are changes to their investment objectives or financial situation that would impact the allocation of the managed investments.

Classic Plus and Classic Plus Wrap program account clients will receive a quarterly performance report noting fees, holdings, account performance, and may receive aggregated reports for multiple accounts, as applicable. Performance reports are provided for informational purposes only. Clients should receive account statements directly from custodians at least quarterly. Clients should compare their performance reports against the statements received from the custodian for any inconsistencies and should bring them to the attention of their IARs, as applicable.

### **TPM Review**

Clients who have placed assets with TPMs should review the TPMs disclosure brochure and account statements they receive for any inconsistencies regarding assets, fees, or other account activities and should bring them to the attention of their IARs, as applicable.

The Firm conducts a due diligence review of each TPM at least annually. This review is aimed at determining if any material changes in philosophy, performance, product or key personnel have occurred at the TPM.

## **Financial Planning Services Review**

IARs who provide clients with Financial Plans will review clients' investment objectives and financial situations with clients prior to plan creation. Once a plan is generated and ready for presentation, IARs review the plans with clients and discuss the findings and recommendations in the plan.

Centaurus performs random reviews of financial plans and planning services, provided to clients. Reviews can take place during annual office inspections and/or during periodic reviews of submitted plans, or as otherwise directed by the Firm.

## **Item 14 Client Referrals and Other Compensation**

Centaurus IARs are also Registered Representatives of the Firm. As such, their investment recommendations are limited to investment products and services approved by the Firm. Other suitable investment products may be available through other financial services firms at lower costs. A conflict of interest exists because of the IARs' duty to provide unbiased advice to clients and the potential receipt of commissions on transactions effected through the Firm. The Firm or its IARs may receive benefits in addition to advisory fees or brokerage commissions for selling or promoting certain products or services. For example, such benefits can include travel reimbursement for attending due diligence meetings. Any such arrangement is reviewed for compliance with applicable regulations.

In general, Centaurus IARs are independent contractors. They do not receive salaries, trail commissions, or production bonuses from Centaurus. Therefore, such IARs' compensation through Centaurus is not tied to any particular product or service. Centaurus, at its discretion, may assist an IAR in attending a Firm-sponsored educational seminar or other event.

Centaurus does not compensate third parties for client referrals.

As disclosed under Item 12. above, CFI participates in TD Ameritrade's institutional customer program and CFI may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between CFI's participation in the program and the investment advice it gives to its Clients, although CFI receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving CFI participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to CFI by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by CFI's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit CFI but may not benefit its Client accounts. These products or services may assist CFI in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help CFI manage and further develop its business enterprise. The benefits received by CFI or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, CFI endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by CFI or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

CFI also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include Orion Advisor Services. TD Ameritrade provides the

Additional Services to CFI in its sole discretion and at its own expense, and CFI does not pay any fees to TD Ameritrade for the Additional Services. CFI and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services. CFI's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to CFI, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Advisor's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with CFI, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, CFI may have an incentive to recommend to its Clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. CFI's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including seeking best execution of trades for Client accounts.

#### **Item 15 Custody**

Centaurus does not maintain physical custody of client assets. The Firm has technical custody with respect to automatically deducted advisory fees from Classic Plus client accounts. Clients should review the account statements from the custodian for the total account value, amount of the calculated fee, among other things, to determine that information is represented accurately.

In addition to account statements provided by the account custodian, Classic Plus clients will also receive quarterly performance reports noting fees, holdings, account performance, etc. Performance reports are provided for informational purposes only and are not an official Centaurus record. Reports are prepared using sources and information believed to be reliable and are not a guarantee of positions owned, or of the market value of such positions. Although great effort is taken to provide accurate information, these reports should not be considered tax or legal advice. Clients should review the statement provided by the account custodian and contact their IARs with any questions or discrepancies. Clients should compare Program reports against the statements received from the custodian for any inconsistencies and should bring any questions to the attention of their IAR.

#### **Item 16 Investment Discretion**

An IAR may be given investment discretion in connection with a client's account. With discretion, the IAR can trade securities in the account without communicating with the client before placing trades to the risk of Client. Generally, this limited type of authority restricts the IAR to the execution of transactions in the account. It does not authorize withdrawal of funds or securities from the account. Centaurus may permit IARs to exercise discretion in client accounts, subject to certain limitations. IARs must request and receive approval to exercise discretion from the Firm prior to the IAR placing any discretionary trades. Each client must grant limited trading authority to the IAR in writing prior to the IAR placing any discretionary transactions in the client's account. The IAR's Supervisor and the Home Office must review and approve the written limited trading authorizations for each account where the client intends to grant discretion to the IAR.

#### **Item 17 Voting Client Proxies**

Centaurus and its IARs are expressly precluded from taking any Proxy related action on behalf of a client. As such, Centaurus and its IARs will not take any action, and shall not be obligated to render any advice to client with respect to (i) the voting of proxies solicited by, or with respect to, the issuers of any securities held by client, or (ii) legal proceedings involving securities and/or other investments, presently or formerly held, or the issuers thereof, including bankruptcies. IARs are required to forward any proxy materials, legal proceedings or other documents received for a client, to client's address of record.

#### **Item 18 Financial Information**

Centaurus is obligated to disclose any financial condition which, within reason, is likely to impair its

ability to meet its contractual obligations. Centaurus is not currently experiencing any financial event that it reasonably believes likely to impair its ability to meet its contractual obligations.