



Carroll Financial Associates, Inc.

4201 Congress Street
Suite 210
Charlotte, North Carolina 28209

(704) 553-8006

www.CarrollFinancial.com

**Form ADV Part 2A Brochure
December 29, 2014**

This brochure provides information about the qualifications and business practices of Carroll Financial Associates, Inc. ("CFA"). If you have any questions about the contents of this brochure, please contact us at (704) 553-8006 or cfa@carrollfinancial.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Additional information about Carroll Financial Associates, Inc. is available on the SEC's website at **www.AdviserInfo.sec.gov**.

Summary of Material Changes

This Brochure is prepared in the revised format required by SEC rules effective March 31, 2011. Registered investment advisers are required to use this format to inform clients of the nature of advisory services provided, the types of clients served, the fees charged, the potential conflicts of interest and other information. Accordingly, the current format of the Brochure includes a Summary of Material Changes (the "Summary") reflecting changes to our policies, practices, or conflicts of interest we consider important to our clients that have been made since our last Brochure dated March 31, 2014 that was filed with the SEC on March 19, 2014.

Set forth below is the Summary of Material Changes for Carroll Financial Associates, Inc.:

Date of Change	Description of Item
April 2011	We added a seventh investment allocation model, called <i>Capital Preservation</i> (see “ Methods of Analysis, Investment Strategies and Risk of Loss ” regarding this material change).
March 2012	We added a description of ERISA plan advisory services (see “ Advisory Business - Portfolio Management ” regarding this important addition).
March 2012	We added an explanation of the separate fee arrangement for the ERISA plan advisory services (see last paragraph of “ Fees and Compensation - General Fee Information ” regarding this new fee arrangement).
March 2012	We made changes to the asset tiers and maximum annual fees for PAM and Prime accounts, and added the new ERISA participant account fee arrangement (see “ Fees and Compensation - Portfolio Management Fees ” for this updated information).
March 2012	We clarified when Margin Transactions would be considered (see “ Methods of Analysis, Investment Strategies and Risk of Loss - Investment Strategies ” for this clarification).
March 2013	We changed the name of the broker/dealer used by Carroll Financial Associates, Inc. from Financial Network Investment Corporation (Financial Network) to its successor in name, Cetera Advisor Networks LLC (Cetera Advisor Networks).
March 2013	We added Premier Portfolio Management as a new advisory program offering (see “ Fees and Compensation - General Fee Information ” regarding this new program).
March 2013	We changed the name of the Capital Preservation investment allocation model to the Conservative Income model (see “ Methods of Analysis, Investment Strategies and Risk of Loss - Methods of Analysis ” for this change).
March 2014	We have not made any material changes to the ADV we filed with the SEC in March 2013.
December 2014	We added the new advisory Carroll Financial Wrap Fee Program through the Schwab Advisor Services division of Charles Schwab & Co., Inc. (see “ Fees and Compensation - General Fee Information ” regarding this new program).

Table of Contents

Page

Advisory Business	4
Fees and Compensation	6
Performance-Based Fees and Side-By-Side Management	11
Types of Clients	11
Methods of Analysis, Investment Strategies and Risk of Loss	11
Disciplinary Information	13
Other Financial Industry Activities and Affiliations	14
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	14
Brokerage Practices.....	15
Review of Accounts.....	16
Client Referrals and Other Compensation.....	16
Custody	17
Investment Discretion	17
Voting Client Securities	17
Financial Information	18
Brochure Supplement(s).....	18

Advisory Business

Principal Owners

Larry W. Carroll, B. Kelly Graves, John A. Patterson and Carl A. Brooks are the principal owners of Carroll Financial Associates, Inc. Please see ***Brochure Supplement(s)*** available from your Advisor(s) for more information on these and other individuals who formulate investment advice and have direct contact with clients, or who have discretionary authority over client accounts.

General Information

Carroll Financial Associates, Inc. was formed in 1980 and provides financial planning, portfolio management, and general consulting services to its clients. At the outset of each client relationship, CFA spends time with the client, asking questions, discussing the client's investment experience and financial circumstances, and reviewing options for the client.

Clients may elect to retain CFA to prepare a full financial plan. This written report is prepared and presented to the client for consideration. In most cases, clients subsequently retain CFA to manage their investment portfolios on an ongoing basis.

For those financial planning clients making this election, and for other clients who do not need financial planning but retain CFA for portfolio management services, CFA, based on all the information initially gathered, generally develops with each client:

- a financial outline for the client based on the client's financial circumstances and goals, and the client's risk tolerance level (the "Financial Profile"); and
- the client's investment objectives and guidelines (the "Investment Plan").

The Financial Profile is a reflection of the client's current financial picture and a look to the future goals of the client. The Investment Plan outlines the types of investments CFA will make on behalf of the client in order to meet those goals. The Profile and the Plan are discussed regularly with each client, but are not necessarily written documents.

Where CFA provides general consulting services, it will work with the client to prepare an appropriate summary of the specific project(s), to the extent necessary or advisable under the circumstances.

Financial Planning

One of the services offered by CFA is Financial Planning, described below. This service may be provided as a standalone service, or may be coupled with ongoing portfolio management.

Financial Planning may include advice that addresses one or more areas of a client's financial situation, such as estate planning, risk management, budgeting and cash flow controls, retirement planning, education funding, and investment portfolio design and ongoing management. Depending on a client's particular situation, Financial Planning may include some or all of the following:

- Gathering factual information concerning the client's personal and financial situation;
- Assisting the client in establishing financial goals and objectives;
- Analyzing the client's present situation and anticipated future activities in light of the client's financial goals and objectives;

- Identifying problems foreseen in the accomplishment of these financial goals and objectives, and offering alternative solutions to the problems;
- Making recommendations to help achieve retirement plan goals and objectives;
- Designing an investment portfolio to help meet the goals and objectives of the client;
- Providing estate planning;
- Assessing risk and reviewing basic health, life and disability insurance needs; and
- Reviewing goals and objectives, and measuring progress toward those goals.

Once Financial Planning advice is given, the client may choose to have CFA implement the client's financial plan and manage the investment portfolio on an ongoing basis. However, the client is under no obligation to act upon any of the recommendations made by CFA under a Financial Planning engagement, or to engage the services of any recommended professional.

Portfolio Management

At the beginning of a client relationship, CFA meets with the client, asks questions, gathers information and performs research and analysis as necessary to develop the client's Investment Plan. The Investment Plan will be updated from time to time when requested by the client, or when determined to be necessary or advisable by CFA, based on updates to the client's financial or other circumstances.

To implement the client's Investment Plan, CFA can manage the client's investment portfolio on a discretionary basis, or on a non-discretionary basis, depending on the client's preference. As a discretionary investment adviser, CFA will have the authority to supervise and direct the portfolio without prior consultation with the client. Clients who choose a non-discretionary arrangement will be contacted prior to the execution of any trade in the account(s) under management. This could result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block or aggregated trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the trading block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken with respect to the portfolio.

Notwithstanding the foregoing, clients may impose certain written restrictions on CFA in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments (e.g., "sin stocks") in an investment portfolio, or prohibiting the sale of certain investments already held in the account at the commencement of the relationship. Each client should note, however, that restrictions imposed by the client may adversely affect the composition and performance of the client's investment portfolio. Each client should also note that his or her investment portfolio is treated individually by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios with the same investment objectives, goals and/or risk tolerance may differ, and clients should not expect that the composition or performance of their investment portfolios would necessarily be the same as in similar accounts of other CFA clients.

In addition to advisory services provided to clients in ongoing account relationships noted above in Portfolio Management, clients may also contract with CFA to provide strategic asset allocation advice with respect to their self-directed participant accounts in retirement plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), as amended. Under the agreement governing this arrangement ("ERISA Agreement"), CFA provides non-discretionary advice to the

client regarding the allocation of investments among the funds made available ("Available Funds") under the ERISA plan. The client can choose whether to implement the advice rendered by CFA, and if so, the client is responsible for implementing the allocation among the Available Funds. The term of the ERISA Agreement is for one year, and can be renewed by executing a new agreement.

Type and Value of Assets Currently Managed

As of March 31, 2014, CFA managed \$1,343,847,608 of assets on a discretionary basis, and \$223,560,862 of assets on a non-discretionary basis, for a total of \$1,567,408,470 of advisory assets under management.

General Consulting

In addition to the foregoing services, CFA may provide general consulting services to clients. These services are generally provided on a project basis, and may include, without limitation, minimal cash flow planning for certain events such as education expenses or retirement, estate planning analysis, income tax planning analysis and review of a client's insurance portfolio, as well as other matters specifically requested by the client and agreed to by CFA. The scope and fees for consulting services are negotiated with each client at the time of engagement for the applicable project.

Fees and Compensation

General Fee Information

Clients generally enter into one of five fee arrangements. Though Carroll Financial and Cetera Advisor Networks LLC ("Cetera Advisor Networks") are not affiliated, Carroll Financial has selected Cetera Advisor Networks as its primary broker-dealer of choice. Through its association with Cetera Advisor Networks, CFA offers its clients the option of investing through three advisory programs sponsored by Cetera Advisor Networks. In these programs, CFA is responsible for the investment decisions in the client's portfolio. CFA is responsible for monitoring the returns and investments in the portfolio to ensure they are appropriate for the client's stated objectives and risk tolerance. In the first of these programs, Preferred Asset Management (PAM) accounts pay a management fee, plus the cost of transactions in the account. In the other two programs, Prime Portfolio Services (Prime) and Premier Portfolio Management (Premier), accounts pay one inclusive fee that covers both portfolio management and transaction costs. Additionally, in the Premier account, the all-inclusive fee covers most fees normally charged by Cetera Advisor Networks' clearing firm and client account custodian, Pershing LLC, such as the annual IRA maintenance fee. Accordingly, for a particular client, the Prime and Premier fee schedules can be higher than the PAM fee schedule.

The fourth fee arrangement is the Carroll Financial Managed Account Program (CFA-MAP) which uses the Cetera Advisor Networks PAM agreement and its advisory trading platform, and Pershing LLC as its trade clearing agent and asset custodian. In the CFA-MAP program, client accounts pay a management fee, plus the cost of transactions in the account. These accounts are managed directly by Larry W. Carroll, CFP® and President of Carroll Financial Associates, Inc., normally under a discretionary trading authorization signed by the client. Larry is assisted by a team of three other investment professionals.

The fifth fee arrangement is the advisory Wrap Fee Program ("Wrap Program") sponsored by Carroll Financial Associates, Inc. available through the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member FINRA/SIPC. CFA is independently owned and operated and is not affiliated with Schwab. In the Wrap Program, CFA serves as the sole investment advisor for client accounts and provides Schwab directions, under a

discretionary trading authorization signed by the client, for trading client accounts using securities, mutual funds and other appropriate investments offered on Schwab's advisory platform.

Under the Wrap Program CFA may recommend that clients establish brokerage accounts with Schwab to maintain custody of clients' assets and to effect trades for their accounts. Schwab provides CFA with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. In addition to providing custody services and executing trades, Schwab's services may include research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors, or to client accounts with a high minimum initial investment.

For CFA client accounts maintained in its custody, Schwab generally does not charge separately for custody services, but is compensated by accountholders through commissions or other transaction-related or asset-based fees for securities trades executed through Schwab, or that settle in Schwab accounts.

Schwab also makes available to CFA other products and services that benefit CFA, but may not directly benefit its clients' accounts. These may include national, regional or CFA-specific educational events organized and/or sponsored by Schwab Advisor Services. These products and services may assist CFA in managing and administering clients' accounts, and may include software and other technology (and related training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of CFA's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Schwab may discount or waive fees it would otherwise charge for some of these services, or pay all or a part of the fees of a third-party providing these services to CFA.

In the Wrap Program client accounts pay CFA one inclusive fee that covers both portfolio management and transaction costs. The all-inclusive fee covers most fees normally charged by Schwab as the trade clearing firm and client account custodian, such as annual IRA maintenance fees, as applicable. (See the Form ADV Part 2A – Appendix 1 - Wrap Fee Program Brochure for more information on the Wrap Program.)

In any of the five arrangements, the fees noted above are separate and distinct from the internal fees and expenses charged by mutual funds, Exchange Traded Funds (ETFs), or other investment pools to their shareholders (generally including a management fee and fund expenses, as described in each fund's prospectus or offering materials). The client should review all fees charged by funds, brokers, CFA and others, to fully understand the total amount of fees paid by the client for investment and financial related services.

An additional, and separate, fee arrangement is established for clients who contract with CFA to provide non-discretionary investment advice with respect to their self-directed ERISA plan accounts. In the ERISA fee arrangement, clients pay an invoiced amount based on a flat fee, an hourly fee, or an asset-based fee. The fee charged is strictly for investment allocation advice and does not include any fees, charges, or other expenses of the Available Funds held in the client's ERISA account, nor does it include separate investment advisory, administration, transfer agency, distribution, shareholder services and other expenses that are paid by the client, indirectly, as a shareholder/unit holder.

Financial Planning Fees

Fees for written financial plans normally begin at \$500, with the most common range of fees falling between \$1,000 and \$4,000. Fees will vary depending upon the complexity of the client's situation. Fees are negotiable and are agreed upon with the client in advance. Generally, the fee is due upon completion of the financial plan and receipt of an invoice. The client may cancel the financial planning agreement within five (5) days of initial execution.

For those clients who elect to engage CFA to review and/or update their Financial Plan on a regular basis (usually annually), fees are typically billed at the completion of the review and are payable upon receipt of an invoice.

Portfolio Management Fees

The following fee schedules, expressed as a percentage of assets under management, represent the standard fee schedules for advisory accounts. Individual fee schedules, however, are separately negotiated with each client.

Preferred Asset Management (PAM) Account Fees

<u>Assets Under Management</u>	<u>Maximum Annual Fee</u>
First \$250,000	2.50%
Next \$250,000	2.25%
Next \$500,000	1.75%
Next \$1,500,000	1.50%
Next \$2,500,000	1.25%
Balance over \$5,000,000	1.00%

The above fees for PAM accounts are the maximum fees charged and are negotiable. These fees do not include standard transaction charges imposed by the clearing firm or mutual fund sponsors. Cetera Advisor Networks requires a \$25,000 minimum balance to establish a PAM account.

Prime Portfolio Services (Prime) Account Fees

<u>Assets Under Management</u>	<u>Maximum Annual Fee</u>
First \$250,000	2.75%
Next \$250,000	2.50%
Next \$500,000	2.00%
Next \$1,500,000	1.75%
Next \$2,500,000	1.50%
Balance over \$5,000,000	1.25%

The above fees for Prime accounts are the maximum fees charged and are negotiable. These fees include standard transaction charges. Cetera Advisor Networks requires a \$25,000 minimum balance to establish a Prime account.

Premier Portfolio Management (Premier) Account Fees

<u>Assets Under Management</u>	<u>Maximum Annual Fee</u>
First \$250,000	2.75%
Next \$250,000	2.50%
Next \$500,000	2.00%
Next \$1,500,000	1.75%
Next \$2,500,000	1.50%
Balance over \$5,000,000	1.25%

The above fees for Premier accounts are the maximum fees charged and are negotiable. These fees include standard transaction charges. Cetera Advisor Networks requires a \$25,000 minimum balance to establish a Premier account.

Carroll Financial Managed Account (CFA-MAP) Fees

<u>Assets Under Management</u>	<u>Maximum Annual Fee</u>
First \$5,000,000	1%
Balance over \$5,000,000	Negotiable

The above fees for CFA-MAP accounts are the maximum fees charged and are negotiable. These fees do not include standard transaction charges imposed by the clearing firm or mutual fund sponsors. CFA requires a \$100,000 minimum balance to establish a CFA-MAP account.

Carroll Financial Wrap Fee Program Account Fees

<u>Assets Under Management</u>	<u>Maximum Annual Fee</u>
First \$250,000	2.75%
Next \$250,000	2.50%
Next \$500,000	2.00%
Next \$1,500,000	1.75%
Next \$2,500,000	1.50%
Balance over \$5,000,000	1.25%

The above fees for Wrap Program accounts are the maximum fees charged and are negotiable between CFA and the client. These fees include standard transaction charges. CFA requires at the time a new account is established that the aggregate value of the client's accounts (including the new account) held in the Wrap Program total at least \$25,000.

Portfolio management fees are payable quarterly, in advance. If portfolio management begins after the start of a quarter, fees are prorated accordingly. Fees are normally debited directly from client account(s), unless other arrangements are made.

Either CFA or the client may terminate their Investment Management Agreement at any time, subject to any written notice requirements [typically thirty (30) days] in the agreement. In the event of termination, any paid but unearned fees will be promptly refunded to the client, and any fees due CFA from the client will be invoiced or deducted from the client's account prior to termination.

Under no circumstance are fees calculated based on a percentage of capital gains in a client's portfolio.

ERISA Plan Participant-Directed Account Fees

Annual flat fee of \$_____, payable in installments, as invoiced.

Hourly fee of \$_____ per hour, payable as invoiced.

Asset-based fee calculated as follows, and payable as invoiced:

<u>Portfolio Value of Plan Account</u>	<u>Maximum Annual Fee</u>
First \$250,000	2.25%
Next \$250,000	2.00%
Balance over \$500,000	1.50%

The above fees for ERISA plan accounts are the maximum fees charged and are negotiable.

Either the client, without financial penalty, or CFA may terminate the ERISA Agreement at any time prior to the expiration of the one-year term, subject to the written notice requirements [thirty (30) days in advance] in the agreement. In the event of termination, the fees will be prorated based on the advisory services provided by CFA through the date of termination.

General Consulting Fees

When CFA provides general consulting services to clients, these services are generally separate from CFA's financial planning and portfolio management services. Fees for general consulting are negotiated at the time of the engagement for such services, and are normally calculated on an hourly basis, at rates generally ranging from \$200 to \$400/hour, depending on the scope of the project. The amount due is billed and payable after the work is completed.

Other Compensation

CFA executive officers and certain advisory associates are Registered Representatives and/or Principals of Cetera Advisor Networks LLC, 200 N. Sepulveda Blvd. Ste.1300, El Segundo, CA 90245-5670, 800/879-8100, a registered broker-dealer (member SIPC and FINRA), and may receive usual and customary commissions associated with insurance and securities brokerage transactions. These individuals may also be licensed and appointed with various insurance companies to sell life, health, disability, and long-term care insurance, and annuity products.

If a client so chooses, he may implement security-related investment advisory recommendations by utilizing the services of any qualified advisory associate of CFA, and such transactions will be effected through Cetera Advisor Networks LLC, as the CFA associates are registered representatives of that broker-dealer. In connection with such transactions, the broker-dealer and the registered representatives may receive compensation, and certain persons may receive compensation not only for investment advisory services, but also for effecting securities transactions to implement such services. The relationship between the CFA advisory associate and Cetera Advisor Networks, and the type of compensation the advisor may receive as a result of those transactions, is disclosed in the advisory agreement the client signs when establishing the account.

Clients are under no obligation to purchase securities, insurance, or other products through the resources available to CFA, its officers and associated persons. The client is free to choose the source through which to implement advisory recommendations.

Performance-Based Fees and Side-By-Side Management

CFA does not have any performance-based fee arrangements. “Side by Side Management” refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because CFA has no performance-based fee accounts, it has no side-by-side management.

Types of Clients

CFA provides portfolio management services to individuals, pension and profit-sharing plans, 401(k) plans, self-directed participant accounts in ERISA plans, corporations, trusts, estates, and charitable and non-profit organizations. Minimum portfolio size requirements were described earlier in the “Portfolio Management Fees” section of this Brochure.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

CFA has an investment committee, which maintains an approved list of individual securities as well as seven different investment allocation models. The Models are: Growth, Total Return, Income & Growth, Income, Risk Controlled, Tactical, and Conservative Income.

Advisory Representatives of CFA are not required to choose from the approved list of securities in selecting investments for the clients they serve, although this practice is encouraged, and in most cases followed.

In accordance with the Investment Plan for each client, CFA will generally invest client assets among a variety of asset types, including without limitation, mutual funds, ETF’s, common and preferred stocks, U. S. government securities, and corporate and municipal bonds. CFA may also utilize alternative investments. Specifically, CFA may invest in partnership-type investments that provide shelters for otherwise taxable income. In addition to real estate, oil and gas partnerships, CFA may also advise on partnerships concerning commodity options and futures, farming, leasing, and coal.

In making selections of individual stocks for client portfolios and for inclusion in the Models, CFA normally focuses on the following types of analyses:

Fundamental Analysis – involves analyzing individual companies and their industry groups, such as a company’s financial statements, details regarding the company’s product lines, the experience and expertise of the company’s management, and the outlook for the company’s industry. The resulting data is used to measure the true value of the company’s stock compared to the current market value.

Technical Analysis – involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.

Mutual funds and ETFs are generally evaluated and selected based on a variety of factors, including, without limitation, past performance, fee structure, portfolio managers, fund sponsor, overall independent ratings for safety and returns, and other factors.

Fixed income investments may be used as a strategic investment, as an instrument to fulfill liquidity or income needs in a portfolio, or to add a component of capital preservation. CFA may evaluate and select individual bonds or bond funds based on a number of factors including, without limitation, rating, yield and duration.

Investment Strategies

The overall strategic approach of CFA is to invest each portfolio in accordance with the Investment Plan that has been developed specifically for each client. This may include using one Model allocation alone, or in combination, in a client's portfolio. Accordingly, the following strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances:

Long Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, and generally will be held for at least a year.

Short Term Purchases – securities purchased with the expectation that they will be sold within a relatively short period of time, generally within a year.

Trading – securities sold within thirty days of purchase.

Margin Transactions – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan. Upon request by the client, CFA will consider initiating margin transactions, provided the client's account has been approved by CFA and Cetera Advisor Networks LLC (broker-dealer) to engage in this type of activity.

Options Trading/Writing - a securities transaction that involves buying or selling (writing) an option. If you write an option, and the buyer exercises the option, you are obligated to purchase or deliver a specified number of shares at a specified price at the exercise of the option, regardless of the market value of the security at expiration of the option. Buying an option gives you the right to purchase or sell a specified number of shares at a specified price until the date of expiration of the option, regardless of the market value of the security at expiration of the option.

Risk of Loss

While CFA seeks to diversify clients' investment portfolios across various asset classes consistent with their Investment Plans in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face:

Management Risks. While CFA manages client investment portfolios based on CFA's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying mutual funds and other securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that CFA allocates assets to asset classes that are adversely affected by unanticipated market movements, and the risk that CFA's specific investment choices could underperform their relevant benchmarks.

Risks of Investments in Mutual Funds, ETFs and Other Investment Pools. As described above, CFA may invest client portfolios in mutual funds, ETFs and other investment pools (“pooled investment funds”). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds’ success will be related to the skills of their particular fund managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

Equity Market Risks. CFA may invest portions of client assets directly into equity investments, primarily stocks, or into pooled investment funds that invest in the stock market. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security’s prospects.

Risks Related to Alternative Investment Vehicles. The value of client portfolios will be based in part on the value of alternative investment vehicles in which they are invested, the success of each of which will depend heavily upon the efforts of their respective Managers. When the investment objectives and strategies of a Manager are out of favor in the market, or a Manager makes unsuccessful investment decisions, the alternative investment vehicles managed by the Manager may lose money.

Fixed Income Risks. CFA may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by issuing entities), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

Foreign Securities Risks. CFA may invest portions of client assets into pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U. S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U. S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U. S. dollar versus the security’s underlying foreign currency.

Disciplinary Information

CFA has no disciplinary events to report.

Other Financial Industry Activities and Affiliations

As previously described, CFA executive officers and associates may also be Registered Representatives of Cetera Advisor Networks LLC (Cetera Advisor Networks), 200 N. Sepulveda Blvd. Ste.1300, El Segundo, CA 90245-5670, 800/879-8100, a registered broker-dealer (member SIPC and FINRA), and may receive usual and customary commissions associated with insurance and securities brokerage transactions. These individuals may also be licensed and appointed with various insurance companies to sell life, health, disability, and long-term care insurance, and annuity products.

Clients are under no obligation to purchase securities, insurance, or other products through the resources available to CFA, its officers, and associated persons. The client is free to choose the source through which to implement advisory recommendations.

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

Code of Ethics and Personal Trading

CFA has adopted a Code of Ethics (“the Code”), the full text of which is available to you upon request. CFA’s Code has several goals. First, the Code is designed to assist CFA in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940, CFA owes a fiduciary duty to its clients. Pursuant to this fiduciary duty, the Code requires CFA associated persons to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for CFA’s associated persons (managers, officers and employees). Under the Code’s Professional Standards, CFA expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, CFA associated persons are not to take inappropriate advantage of their positions in relation to CFA clients’ accounts.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time, CFA’s associated persons may invest in the same securities recommended to clients. Under its Code, CFA has adopted procedures designed to reduce or eliminate conflicts of interest that personal trading activities of associated persons could potentially cause. The Code’s personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action, as appropriate, for violations of the Code.

Participation or Interest in Client Transactions

Because associated persons may invest in the same securities as those purchased in client accounts, CFA has established a policy requiring its associated persons to pre-clear transactions in these securities with CFA’s trading desk. The goal of this policy is to avoid any conflict of interest that may present itself in these situations. Certain securities, such as CD’s, treasury obligations and open-end mutual funds are exempt from this pre-clearance requirement. However, in the event of other identified potential trading conflicts of interest, CFA’s goal is to place the interests of its clients first.

Consistent with the foregoing, CFA maintains policies regarding participation in initial public offerings (IPOs) and private placements in order to comply with applicable laws and avoid conflicts with client transactions. If a CFA associated person wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer, and the Compliance Department of Cetera Advisor Networks, the broker-dealer. If associated persons trade with client accounts (e.g., in a bundled or aggregated trade), and the trade is not filled in its entirety, the shares will be allocated among all accounts participating in the trade, in accordance with CFA's written policy.

Brokerage Practices

Best Execution and Benefits of Brokerage Selection

When given the discretion to select the brokerage firm that will execute orders in client accounts, CFA seeks "best execution" for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, CFA may use or recommend the use of brokers who do not necessarily charge the lowest available commission, in recognition of that broker-dealer's research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third-party research (or any combination), and may be used in servicing any or all of CFA's clients' accounts. Therefore, research services received may not necessarily be used for the account(s) for which the particular transaction was effected.

With the exception of client accounts held in the Carroll Financial Wrap Fee Program (described earlier under "Fees and Compensation – General Fee Information"), substantially all CFA clients have their accounts held at, and trades executed by, Cetera Advisor Networks. While Cetera Advisor Networks and CFA are not affiliates, as that term is defined, they do have a very close business relationship. In their capacity as registered representatives of Cetera Advisor Networks LLC, a registered broker-dealer, certain advisory associates may have authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of securities to be bought and sold. Such authority is conferred on the representative in writing by the client, and acknowledged by Cetera Advisor Networks.

The client is under no obligation to implement a financial plan or investment advice by purchasing securities through any officer or advisory associate of CFA in his/her capacity as a registered representative of Cetera Advisor Networks LLC. The client is free to choose the source through which investment advisory recommendations may be implemented.

If the client chooses to implement security-related investment advisory recommendations using the services of any qualified officer or advisory associate of CFA, such transactions will be effected through Cetera Advisor Networks LLC. Accordingly, investment products, although broadly available, are limited to securities that are offered through Cetera Advisor Networks. The broker-dealer is under a regulatory requirement to ensure that high standards of commercial honor, and just and equitable principles of trade, are observed in the conduct of its business. Cetera Advisor Networks directs the trade execution through Pershing LLC, 1 Pershing Plaza, Jersey City, NJ 07399. Cetera Advisor Networks client assets are custodied at Pershing LLC, and all trades are cleared through Pershing LLC. (Carroll Financial does not take custody of any assets held in any of its clients' accounts.) Other suitable investment products, lower commission rates, and more favorable execution may be available through other broker-dealers, clearing firms or investment advisors. CFA has determined that Cetera Advisor Networks provides a high degree of qualitative execution, and reviews this process regularly to verify acceptable execution performance.

CFA and its related persons do not have any arrangements where it/they are paid cash by or receive economic benefit from a non-client in connection with giving advice to clients. However, in connection with the implementation of advice, the firm, and/or its officers and/or advisory associates may receive compensation on the sale of securities and insurance products. In connection with the placement of client funds into investment companies (mutual funds), compensation may take the form of front-end sales charges, redemption fees, and 12(b)-1 fees, or a combination thereof. The prospectus for the investment company provides explicit detail about the method and form of compensation.

Certain investment companies, with whom CFA associates place client funds, may underwrite the expenses of various specific marketing, educational, and professional development activities. In addition to the advisory associates at CFA, these activities may include all of the Cetera Advisor Networks registered representatives who conduct business through the Carroll Region of Cetera Advisor Networks LLC. These reimbursements are not made directly to CFA, but are either paid to Cetera Advisor Networks, which reimburses CFA, or paid to third parties to cover specific expenses.

Aggregated Trade Policy

CFA typically directs trading in individual client accounts as and when trades are appropriate, based on the client's Investment Plan, without regard to activity in other client accounts. However, from time to time, CFA may aggregate trades for multiple client accounts, when these accounts are trading the same securities at the same time. If such an aggregated trade is not completely filled, CFA will allocate shares received (in an aggregated purchase) or sold (in an aggregated sale) across participating accounts on a pro rata or other fair basis, in accordance with its written policy.

Review of Accounts

Managed portfolios are reviewed at least quarterly, but may be reviewed more often if requested by the client, or upon receipt of information material to the management of the client's portfolio, such as a change in the client's financial situation, or at any time such review is deemed necessary or advisable by CFA. Accounts are reviewed by the advisory representative of record for the client account.

For those clients to whom CFA provides separate financial planning and/or consulting services, reviews are conducted on an as-needed or agreed upon basis. Such reviews are conducted by one of CFA's investment adviser representatives or principals.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account, as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as IRS 1099 forms. In addition, quarterly performance reports are provided by Cetera Advisor Networks on all PAM, Prime, and Premier advisory accounts. These reports include a summary of portfolio holdings and performance results. Additional reports may be available at the request of the client.

Client Referrals and Other Compensation

Please see ***"Brokerage Practices"*** for information regarding the relationship between Carroll Financial Associates, Inc. and Cetera Advisor Networks LLC.

From time to time, CFA may enter into arrangements with third parties (“Solicitors”) to identify and refer potential clients to CFA Consistent with legal requirements under the Investment Advisers Act of 1940, as amended, CFA enters into written agreements with Solicitors under which, among other things, Solicitors are required to disclose their compensation arrangements to prospective clients before they enter into an agreement with CFA.

Custody

As noted in “**Brokerage Practices**”, Pershing LLC is normally the custodian of all advisory client accounts at CFA, with the exception of client accounts held in the Carroll Financial Wrap Fee Program (described earlier under “Fees and Compensation – General Fee Information”). From time to time, however, certain clients may designate an alternate broker or custodian to hold account assets, to satisfy specific third-party custodian stipulations in their account agreements with CFA. In any case, it is the custodian’s responsibility to provide clients with confirmations of trading activity, tax forms, and at least quarterly account statements. Clients are advised to review this information carefully, and to notify CFA of any questions or concerns. Clients are also asked to promptly notify CFA if the custodian fails to provide statements on each account held.

From time to time, and in accordance with CFA’s agreement with certain clients, CFA may provide additional reports. These clients are advised to compare the account balances reflected in these reports to the balances shown in the custodian’s brokerage statements, to ensure accuracy. At times, there may be small differences between the reports and the custodian statements due to the timing of dividend reporting and pending trades.

Investment Discretion

As described in the “**Advisory Business**” section, CFA will accept clients on either a discretionary or non-discretionary basis. For *discretionary accounts*, a Limited Power of Attorney is executed by the client, either as part of their advisory agreement with CFA, or as a separately executed document, giving CFA the authority to carry out various activities in the account, generally including, for example, trade execution and the ability to request checks on behalf of the client. CFA then directs investment of the client’s portfolio using its discretionary authority. The client may limit the terms and scope of the discretionary authorization to the extent consistent with the client’s investment advisory agreement with CFA and the requirements of the client account’s custodian.

For *non-discretionary* accounts, in accordance with the investment advisory agreement between CFA and the client, CFA does not implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action.

Voting Client Securities

In very limited circumstances, with respect to securities selected on behalf of the client in a managed account, CFA may vote proxies on their behalf. CFA seeks to vote proxies in the best interest of the client(s) holding the applicable securities. In voting proxies, CFA considers factors that it believes relate to the client’s investments and factors, if any, that are set forth in written instructions from the client.

In general, CFA believes that voting proxies in accordance with the following guidelines, with respect to routine items, is in the best interests of its clients. Accordingly, CFA generally will vote **for**:

- The election of directors (where no corporate governance issues are implicated);
- Proposals that strengthen the shared interests of shareholders and management;
- The selection of independent auditors based on management or director recommendations, unless a conflict of interest is perceived;
- Proposals that CFA believes may lead to an increase in shareholder value;
- Management recommendations adding or amending indemnification provisions in charters or by-laws; and
- Proposals that maintain or increase the rights of shareholders.

CFA generally will vote **against** proposals that it believes will have a negative impact on shareholder value or rights. If CFA perceives a conflict of interest in a proposal, its policy is to notify affected clients so they may choose the course of action they deem most appropriate in the voting of the proxy.

In accordance with Cetera Advisor Networks' policy, which does not allow proxy voting, CFA will not vote any proxies for Cetera Advisor Networks sponsored PAM, Prime, or Premier accounts.

A copy of CFA's complete proxy voting policy, as well as records of proxies voted, are available to clients, upon request. As required under the Investment Advisers Act of 1940, such records are maintained for a period of five (5) years.

Financial Information

CFA does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has no disclosure with respect to this item.

Brochure Supplements

Brochure Supplements are available from your Advisor(s) at CFA at no charge, and provide important information about your Advisor's investment experience, qualifications and background.