

Firm Brochure  
Form ADV Part 2A



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This brochure ("Brochure") provides information about the business practices and qualifications of Sterling Financial Group, Inc. Please contact us at (626) 440-9192 or email at [contact@sterlingfg.com](mailto:contact@sterlingfg.com) to discuss any questions you may have regarding this brochure or our services. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any State Securities Authority.

Additional information about Sterling Financial Group, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that the use of the term "registered investment adviser" and description of Sterling Financial Group, Inc. and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for more information on the qualifications of our firm, our associates who advise you and our employees.

## **Item 1 – Cover Page**

Please refer to previous page.

## **Item 2 – Material Changes**

Sterling Financial Group, Inc. (“Sterling Financial Group”) is a newly registered investment advisor with the SEC. As such, no material changes are noted here. Our prospective clients are strongly encouraged to read this brochure in its entirety prior to engaging Sterling Financial Group for any advisory services.

Pursuant to SEC Rules, Sterling Financial Group will ensure that clients receive a summary of any materials changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as we experience material changes in the future, we will send you a summary of our “Material Changes”, along with an offer to provide the Brochure under separate cover.

Additional information about Sterling Financial Group and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4 - Advisory Business

### A. Description of Firm

Sterling Financial Group, Inc. is an investment advisory firm that oversees clients' assets and provide a range of comprehensive wealth management services. Our team has the skill and expertise to offer exceptional economic advice and market analysis, as well as a strong network of professionals to refer to for legal and tax advice, enhancing our ability to successfully assist clients in achieving their financial goals. Michael Hatch, Principal of Sterling Financial Group, Inc. (hereinafter, Sterling Financial Group), has been helping clients in formulating and implementing complex wealth management strategies and managing their assets for over twenty-five years.

Sterling Financial Group was established in 2019 by Michael P. Hatch, CFP, MBA, JD, who is the sole shareholder and serves as the Chief Compliance Officer. Mr. Hatch began his career as a financial advisor in 1989 and has operated predecessor firms as a principal since that time.

### B. Types of Advisory Services Offered

#### 1. Written Financial Planning and Financial Consulting:

**Written Financial Planning:** Sterling Financial Group offers written financial planning services tailored to our clients' specific circumstances, and such services are typically rendered for a flat fee. Our financial planning services are not tied to the purchase of any product, investment, insurance or other service, and analysis and recommendations are meant to illustrate various strategies, possible cash flow scenarios, and hypothetical tax, estate plan or other philanthropic strategies in an objective manner. This method of creating customized financial plans using a consultative approach assists our clients by taking into account the client's unique position and using the array of expertise at our disposal to incorporate strategies appropriate to each individual situation.

Creating a written financial plan is an involved process that typically begins with a consultation meeting so our advisors can learn about the client's goals and objectives and obtain an understanding of the client's financial situation. Some planning engagements are solely to address a specific issue or transaction while others may require a more comprehensive review. When providing written financial planning, we rely heavily on data and information provided by the client, such as expense and income schedules, investment statements, pension statements, estate plans and tax returns. These data points and any assumptions used in our planning forecasts are expressly stated in our financial plans. After the completion of our analysis we customarily provide clients with a written summary of their financial situation, our observations, and recommendations. It should be noted that we will refer clients to an accountant, attorney or other adviser, as necessary. Written plans are typically completed within three months of the client signing a Client Agreement with us, assuming that all the information and documents we request from the client are provided on a timely basis. Once the written financial plan is completed and delivered to the client, implementation of any recommendations is at the discretion of the client.

Clients should understand that a conflict of interest exists when Sterling Financial Group recommends its own investment management services to implement investment recommendations, as the firm will receive additional compensation as a result of performing such investment management services. Any implementation of Sterling Financial Group's recommendations are entirely at the client's discretion. Clients are free at all times to accept or reject any or all recommendations made by Sterling Financial Group and clients retain the authority and discretion on whether or not to implement any financial planning recommendations (please see Item 5 below for additional information).

**Financial Consulting:** Sterling Financial Group provides financial consulting for an hourly fee or may provide such services on a fixed fee or periodic retainer. The financial consulting process is generally less formal than our written financial planning service and is generally offered when the circumstances of a client's need for financial consulting advice is anticipated to extend over many months or years, such as a complicated divorce matter, estate or trust settlements, or business transactions. We may or may not provide our clients with a written summary of our observations and recommendations. We offer financial consulting and expert advice in all of the same areas in which we conduct financial planning. The implementation of our financial consulting recommendations is also at the discretion of the client.

## **2. Fee Based Investment Management:**

**Asset Management:** Sterling Financial Group provides investment strategies that are tailored to our client's specific needs with the expectation that such asset management services are normally offered on a continuous basis. Management services may be provided on a discretionary or non-discretionary basis. Each portfolio is designed to meet a particular investment goal, which we determine to be suitable to the client's circumstances. We select from a wide array of investment vehicles, such as stocks, options, fixed income securities, mutual funds, real estate investment trusts, exchange traded funds, and in certain situations we may choose hedge funds, high yield debt, managed futures and other more complex or specialized instruments. Although the selection of investments is at the discretion of the advisor, each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Once the appropriate portfolio has been determined, we monitor the investments regularly, conduct account reviews periodically and rebalance the portfolio if necessary, based upon the client's individual needs, stated goals and objectives. Sterling Financial Group disciplined approach to managing client's assets that is supported by the belief that over the long term, a consistent strategy that is meticulously followed will provide the best opportunity for the best return. Clients may choose to engage Sterling Financial Group on a non-discretionary basis. Changes in non-discretionary accounts will only be implemented with the client's authorization.

Client assets managed by Sterling Financial Group are held in accounts at a registered broker/dealer and qualified custodian, who will provide clearing, custody and other brokerage services for client accounts. At the present time Sterling Financial Group has custodial relationships with LPL Financial, LLC and Charles Schwab & Co. While Sterling Financial Group may assist the client in completing the custodian's paperwork, the client is ultimately responsible for providing all of the necessary information to establish the account. Clients will retain all rights of ownership in the accounts, including the right to withdraw securities and cash, vote proxies, and receive transaction confirmations.

On an accommodation basis, Sterling Financial Group, in its sole discretion, may agree to handle certain accounts on a non-managed basis. In such cases, Sterling Financial Group will not be responsible for providing management on either a discretionary or non-discretionary basis.

**Portfolio Management Services:** When appropriate we have the ability to provide access to third party professional Portfolio Managers, who will provide individual management to client's account on a discretionary basis.

These services may be provided through third party investment advisors directly or as part of a program sponsored by one of our custodian partners. A broad range of Portfolio Managers, and numerous investment styles are available, including equity, fixed income, balanced, international, ETF, REIT and socially responsible portfolios. Sterling Financial Group will assist the client in determining an appropriate investment objective, as well as selecting an investment strategy and/or Portfolio Manager for the account. We will also provide ongoing

advice and monitoring of the Portfolio Manager services and act as the point of contact between the client and the Portfolio Managers.

For more information regarding these programs, including the advisory services and fees that apply, the types of investments available in the programs, and the potential conflicts of interest presented by the programs, please refer to the appropriate disclosure document and account paperwork for the Portfolio Manager and/or advisory program.

**Additional Services:** Sterling Financial Group also offers asset management services through a wrap fee program. For more information regarding this program, please contact Sterling Financial Group and request a copy of our Wrap Program Brochure.

## **C. Advisory Agreements**

### **1. Information Received by Individual Clients**

At the onset of the Client relationship, we gather information on each client's investment objectives, risk tolerance, time horizons and financial goals. Sterling Financial Group does not assume responsibility for the accuracy of the information provided by the client and is not obligated to verify any information received from the client or from any of the client's other professionals (e.g., attorney, accountant, etc.). Under all circumstances, clients are responsible for promptly notifying us in writing of any material changes to the client's objectives, risk tolerance, time horizon, and financial goals. In the event that a client notifies Sterling Financial Group of any changes, we will review such changes and implement any necessary revisions to the client's portfolio.

### **2. Client Agreements and Disclosures**

Each client is required to enter into a written agreement with Sterling Financial Group setting forth the terms and conditions under which we shall render its services (the "Agreement"). In accordance with applicable laws and regulations, Sterling Financial Group will provide its disclosure Brochure (ADV Part 2A), Brochure Supplement (ADV Part 2B) and most recent Privacy Notice to each client prior to or contemporaneously with the execution of the Agreement. The Agreement between Sterling Financial Group and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. Our fees (as discussed below) shall be prorated through the date of termination and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner.

Neither Sterling Financial Group nor the client may assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of Sterling Financial Group shall not be considered an assignment.

As further discussed in Item 15 below, a client's assets will be custodied with a qualified custodian. All custodial and execution fees assessed for client's assets remain the sole responsibility of client.

## **D. Participation in Wrap Programs**

Sterling Financial Group sponsors a Wrap Fee Program. We select investments for client portfolios from securities offered in the Wrap Program. Sterling Financial Group also determines the allocations and sector weights utilized in the Wrap Program. An appropriate allocation and underlying investments are determined through a consultation with the client. Clients may place reasonable restrictions, or make reasonable

modifications to existing restrictions, regarding the management of their Wrap Program account. Please refer to our Form ADV Appendix 1 “Wrap Program Brochure” for additional information concerning the Wrap Program.

## E. Amount of Client Assets Managed

Sterling Financial Group is newly formed and, as such, has no assets under management as of the date of this Brochure. Accordingly, as of January 31, 2019, the following represents the amount of client assets under management on a discretionary and non-discretionary basis:

- \$0 Management of client assets on a discretionary basis
- \$0 Management of client assets on a non-discretionary basis
- \$0 Advice with respect to LPL and/or third party managed platforms

Our advisors also act as registered representatives of LPL Financial in the sale of securities

## Item 5 - Fees and Compensation

**Written Financial Planning and Financial Consulting Services:** Sterling Financial Group normally charges a flat fee for Written Financial Planning that generally ranges from \$3,500 to \$7,500. A retainer of fifty-percent of the ultimate financial planning fee is typically collected with the signing of the Client Agreement. The remainder of the fee is due within thirty days of the delivery of the completed written plan to the client. In all cases, we will not require a retainer exceeding \$500 when services cannot be rendered within 6 months.

Sterling Financial Group charges an hourly fee ranging from \$50 to \$350 per hour for Financial Consulting. A retainer fee is not typically required for our Financial Consulting services. The total estimated fee, as well as the ultimate fee that is charged, is based on the scope and complexity of the engagement with the client.

**Asset Management:** Fees are paid quarterly in advance and billed on a pro-rated annualized basis. Fees are calculated as a percentage of the market value of all assets under management on the last trading day of the month of the previous calendar quarter, including cash holdings. Although we believe our advisory fees are competitive, clients should be aware that the fee may be higher than the fee charged by other investment advisors for similar services. Our fees are generally not negotiable (but, we expect to reduce or waive all or a portion of advisory fees for certain clients, friends, or family in our sole discretion). Below is the schedule of fees for our asset management services:

<u>Assets Under Management</u>	<u>Annual Fee Percentage:</u>
\$0 to \$999,999	0.85 – 1.70%
\$1,000,000 to \$5,000,000	0.75 – 1.45 %
\$5,000,000 to \$10,000,000	0.55 – 0.95 %
\$10,000,000 to \$20,000,000	0.45 – 0.70 %
Over \$20,000,000	0.20 – 0.45 %

The advisory fee is shared between Sterling Financial Group and its advisors. In such cases where a custodian other than LPL is selected by the client, Sterling Financial Group will pay 5% of the advisory fee received from the client to LPL as an oversight fee. This presents a conflict of interest in that Sterling Financial Group has a financial incentive to recommend LPL as a custodian. Notwithstanding, Sterling Financial Group acts as a fiduciary, obligated to make recommendations only if it believes it is in the client’s best interest, and this includes

the choice of where to recommend clients custody their accounts.

In order to hire Sterling Financial Group to provide management services, clients will be asked to enter into an Agreement with Sterling Financial Group. The Agreement will set forth the terms and conditions of the relationship, including the amount of the investment advisory fee.

In the event that a client wishes to terminate services with Sterling Financial Group, we request a written statement from the client stating the instructions upon how they wish us to terminate our services. Upon receipt of the letter of termination, we will proceed to close out the account and process a pro-rata refund of unearned advisory fees.

Clients may incur transaction charges for trades executed in their accounts. These transaction charges are separate from our fees and will be disclosed by the firm through which the trades are executed. These transaction charges vary based on the type of investment (e.g., stock, mutual fund, exchange traded fund, etc.) and are paid to the custodian of the client's assets. Sterling Financial Group does not receive any portion of the transaction charges.

There are other fees and charges that are imposed by third parties that apply to investments in client accounts. Some of these fees and charges are described below:

- If a client account invests in mutual funds or ETFs, please note that as a shareholder of the fund, a management fee will apply, in addition to paying us an advisory fee for managing the assets. As many of the funds available may be purchased directly, the second layer of fees could be avoided by not using Sterling Financial Group's management services and by the client making their own fund investment decisions.
- Certain mutual funds impose fees and charges such as contingent deferred sales charges, early redemption fees and charges for frequent trading. These charges will apply if a client transfers into or purchases such a fund in the account.
- Although only no-load and load-waived mutual funds can be purchased in a client's account, clients should understand that some mutual funds pay asset-based sales charges or service fees (e.g., 12b-1 fees) to the custodian.
- If a client holds a variable annuity as part of an account, there are mortality, expense, and administrative charges. The annuity Sponsor may also impose fees for additional contract riders, and charges for excessive transfers within a calendar year.
- Certain retirement accounts – IRA and qualified retirement plan fees.
- Certain trust accounts – Administrative servicing fees for trust accounts.
- Unit investment trusts ("UIT") – creation and development fees or similar fees imposed by UIT sponsors.
- Alternative investments – Hedge fund and managed future investment management fees, managed futures investor servicing fees, and business development company fees.
- Sweep money market funds and cash balances – 12b-1 fees or other fees based on average daily



deposit balances.

- Other charges required by law and imposed by the executing broker/dealer or custodian.

Further information regarding fees assessed by a mutual fund or variable annuity is available in the appropriate prospectus, which is available upon request from Sterling Financial Group or from the product sponsor directly.

**Portfolio Management Services:** Fees for services provided by Sterling Financial Group are paid quarterly in advance and billed on a pro-rata annualized basis using the fee schedule noted above. Fees are calculated as a percentage of the market value of all assets on the last trading day of the month of the previous quarter. In addition to and separate from the advisory fees charged by Sterling Financial Group, as referenced in the above schedule, the client will be responsible for advisory fees charged by the Portfolio Manager, as well as custody and clearing fees charged by the account custodian and/or program sponsor. Please refer to the appropriate disclosure brochure for the Portfolio Manager and/or advisory platform, as well as the related advisory agreements and account opening paperwork for more information regarding the fees and compensation.

**Miscellaneous:** Fees will be automatically deducted from the client's managed account. In certain cases, as determined in our sole discretion, we will agree to directly bill clients or pay the fees for one account from another account. As part of this process, the client understands and acknowledges the following:

- a) The account's custodian sends monthly or quarterly statements showing all disbursements for the client's account, including the amount of the advisory fees paid to Sterling Financial Group.
- b) The client provides the custodian with authorization permitting advisory fees to be deducted from their advisory account.
- c) The custodian, or in certain cases Sterling Financial Group, calculates the advisory fees and the custodian deducts them from the client's account.
- d) If we send a copy of our invoice to the client, our invoice includes a legend as required by state rules and regulations. The legend urges the client to compare information provided in our statements with those from the qualified custodian in account opening notices and subsequent statements sent to the client for whom the advisor opens custodial accounts with the qualified custodian.

In non-advisory accounts, certain advisors of Sterling Financial Group can offer securities for a commission because they are registered representatives of either LPL Financial broker/dealers registered with the Financial Industry Regulatory Authority ("FINRA"). Our advisors may accept compensation for the sale of securities or other investment products, including distribution or service ("trail") fees from the sale of mutual funds. If a non-advisory account is opened, the client should be aware of the practice of accepting commissions for the sale of securities and be advised of the following:

- a) Purchasing securities in a non-advisory account presents a conflict of interest that may give our firm and/or our supervised persons an incentive to recommend investment products based on the compensation received, rather than on your needs. We generally address commissionable sales conflicts that arise by explaining to the client that the sale of commissionable securities creates an incentive to recommend products based on the compensation we and/or our supervised persons may earn and may not necessarily be in the best interest of the client. When we recommend commissionable mutual

funds, we explain that “no-load” funds are available through our firm if the client wishes to become an investment advisory client.

- b) Purchasing securities in a non-advisory account in no way prohibits the client from purchasing investment products recommended by our firm through other brokers or agents which are not affiliated with Sterling Financial Group.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

We do not charge performance based fees to our clients.

## **Item 7 - Types of Clients and Account Requirements**

Sterling Financial Group serves Individuals, High-Net-Worth Individuals, Trusts, Estates, Charitable Organizations, Pension and Profit Sharing Plans, as well as Corporations, Limited Liability Companies and/or other types of businesses. In general, the minimum investment for new clients is \$500,000 subject to a minimum account fee of \$6,250, however Sterling Financial Group, in its sole discretion may waive such minimums in limited circumstances, such as the referral of a client’s family member, or professional referrals.

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

We are committed to helping clients achieve their financial goals and objectives. After developing a thorough understanding of a client’s risk tolerance and their short and long-term goals, they are assigned an appropriate investment objective and then a customized investment portfolio. We then choose an appropriate asset allocation to realize a client’s desired rate of return with an acceptable amount of risk. We utilize our experience to ensure client accounts are properly diversified and not subject to the volatility of a single sector, industry, or asset class. We monitor our clients’ managed accounts and rebalance as necessary, to ensure that they are aligned with their account objective. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

We generally use the following types of investments: mutual funds (including asset allocation funds, index funds, international funds, emerging market funds, real estate funds, high yield bond funds and funds that short the market), ETFs (including commodity funds, precious metal funds, and agricultural funds), variable annuity subaccounts, alternative investments (including managed futures funds, hedge funds, real estate investment trusts and business development companies), individual stocks and bonds, and other more complex or specialized instruments. The particular investments selected for your account will depend upon your investment objective, level of risk tolerance, sensitivity to taxes, and other factors.

When selecting mutual funds, ETFs, and third-party money managers, we examine the experience, expertise, investment philosophies, and past performance of the manager. We do this to determine if that manager has successfully demonstrated an ability to invest over a period of time and in different economic or market conditions. For money managers, we monitor the manager’s underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment.

There are risks associated with investing in securities. The following highlights some of the risks associated with the types of investments that may be purchased for your account.

- Investing in any stock, bond or any other investment such as a mutual fund, ETF or Separate Account involves Issuer Risk. Securities held in client's portfolio may experience positive or negative fluctuations including a decline in value because of changes in the financial condition of, or events affecting, the issuers of securities.
- Investing in any company, stock bond or any other investment such as a mutual fund, ETF or Separate Account involves Management Risk. Our firm's opinion of the intrinsic worth of a company or security may be incorrect, may not reflect current market expectations, and we may not make a timely purchase or sale of such securities.
- Investing in any security involves some level of risk; stocks, which represent equity or ownership in a company, are considered inherently risky and no return is predictable or guaranteed when investing in any stock or stock-based fund.
- Investing in international markets presents additional risks including currency fluctuations, the potential for diplomatic and political instability, regulatory and liquidity risks and foreign taxation among others. The risks of foreign investing are generally greater in emerging markets.
- High yield bonds carry greater risks than bonds rated as investment grade. For example, they are issued by organizations that do not qualify for an investment grade rating by one of the rating agencies because of the potential for higher default by the issuer. Further financial difficulties experienced by the issuer may result in a decrease in the market value of the bond, and this may make it impossible to liquidate the bond prior to maturity.
- ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies. ETF shares may trade at a discount or premium to their net asset value. The difference between the bid price and the ask price is often referred to as the "spread." The spread varies over time based on the ETF's trading volume and market liquidity, and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs, in particular those that invest in commodities, are not registered as an investment company.
- Business development companies ("BDCs") are operated for the purpose of making investments in small and developing business, as well as financially troubled businesses. BDCs may also make managerial assistance available to certain companies in its portfolio. BDCs are only required to disclose net asset value on a quarterly basis. BDCs are often characterized as a publicly traded venture capital or private equity firm that is subject to certain provisions of the Investment Company Act. BDCs can be speculative investments because of the types of investments they make. These risks include, but are not limited to, portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, and structural and regulatory risk.
- Managed futures funds, hedge funds and non-traded real estate investment trusts may be purchased within accounts on a non-discretionary basis by clients meeting certain standards. Investing in these funds involves additional risk including, but not limited to, the risk of investment loss due to the use

of leveraging and other speculative investment practices and lack of liquidity and performance volatility. In addition, these funds are not required to provide periodic pricing or valuation information to investors and may involve complex tax structures and delays in distributing tax information. You should be aware that many of these funds are illiquid, as there is no secondary trading market available.

- Structured products are securities derived from another asset, such as a security or a basket of securities, an index, a commodity, a debt issuance, or a foreign currency. Structured products frequently limit the upside participation in the reference asset. Structured products are senior unsecured debt of the issuing bank and subject to the credit risk associated with that issuer. This credit risk exists whether or not the investment held in the account offers principal protection. The creditworthiness of the issuer does not affect or enhance the likely performance of the investment other than the ability of the issuer to meet its obligations. Any payments due at maturity are dependent on the issuer's ability to pay. In addition, the trading price of the security in the secondary market, if there is one, may be adversely impacted if the issuer's credit rating is downgraded. Some structured products offer full protection of the principal invested, others offer only partial or no protection. Investors may be sacrificing a higher return to obtain the principal guarantee. In addition, the principal guarantee relates to nominal principal and does not offer inflation protection. An investor in a structured product does not have a claim on the underlying investment, whether a security, zero coupon bond, or option. There may be little or no secondary market for the securities and information regarding independent market pricing for the securities may be limited. This is true even if the product has a ticker symbol or has been approved for listing on an exchange. Tax treatment of structured products may be different from other investments held in the account (e.g., income may be taxed as ordinary income even though payment is not received until maturity). Structured CDs that are insured by the FDIC are subject to applicable FDIC limits.

## **Item 9 - Disciplinary Information**

There are no 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.

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

Certain advisors of our firm are registered representatives of a registered broker/dealer and/or Investment Adviser Representatives ("IAR") with another registered investment advisor. Please refer to the brochure supplement for the individual handling your account for further information about the advisor's status as a registered representative or IAR.

As potential material conflicts of interest with our clients, we disclose the following relationships or arrangements we have with any related person:

Acting as registered representatives or independent insurance agents, advisors of our firm may suggest that clients implement recommendations through a registered broker/dealer or insurance company. If the client chooses to do so, this would present a conflict of interest to the extent that the advisor would receive normal and customary commissions as a registered representative or licensed insurance agent. Clients may implement and execute such transactions through an advisor of our firm. However, clients are under no obligation to accept recommendations, or to execute transactions through individuals associated with our firm.

Acting as IARs, advisors of Sterling Financial Group may offer advisory accounts through another registered investment advisor. This presents a conflict of interest to the extent that the IAR recommends that a client open an account in which compensation is received as an IAR.

As a result of the relationship with LPL Financial, LPL Financial Advisors may have access to certain confidential information (for example, financial information, investment objectives, transactions and holdings) Sterling Financial Group's clients, even if the client does not establish any account through LPL Financial. If you would like a copy of LPL Financial's privacy policies, please contact Sterling Financial Group to request copies.

Sterling Financial Group is affiliated through common ownership with Sterling Group Wealth Management, LLC ("SGWM"), an investment adviser separately registered with the SEC. Mr. Hatch is a fifty percent owner and investment adviser representative of SGWM. While Mr. Hatch devotes as much time to the business and affairs of Sterling Financial Group as is necessary to perform his duties, he also devotes a substantial portion of his time (i.e., more than 10%) performing services for SGWM. The multiple roles create a conflict of interest, mainly due to the fact that these other obligations take time away from his duties performed for Sterling Financial Group. To help mitigate the conflicts, Sterling Financial Group has implemented certain controls, including supervisory procedures to review Mr. Hatch's outside business activities.

Sterling Financial Group and SGWM occupy the same office suite, and share leasehold costs, with all prices pursuant to fair market rates, on a pro rata basis. Other than noted above, the activities of SGWM are conducted independently of the Sterling Financial Group. In addition, the companies and their personnel are in close proximity to each other's investment managers and thus it is possible for proprietary information related to Sterling Financial Group to be overheard. In order to mitigate the conflicts of interest that arise in connection with this arrangement, Sterling Financial Group (i) conducted thorough due diligence on SGWM prior to occupying the office suite, and (ii) has implemented physical and technological safeguards to protect its information and the information of clients. Specifically, with the exception of internet access and telephonic switch board services, to Sterling Financial Group and SGWM each operate their own separate computer software platforms. Information stored on to Sterling Financial Group's software platform is not accessible by SGWM. Further, Sterling Financial Group has implemented policies and procedures designed to safeguard client information such as locking office doors and implementing a "clean desk" policy for employees. Further, Sterling Financial Group restricts general access to its offices by SGWM and other third parties.

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

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high code of ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers and employees for their personal accounts. In order to monitor compliance with our personal trading policy, we review personal securities transactions for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons, and requires that all employees of Sterling Financial Group:

- Act in accordance with our duty as a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts and to act solely in the best

interest of each of our clients at all times. We have a fiduciary duty to all clients.

- Conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.
- Attest annually and abide by our Insider Trading and Personal Securities Transactions Policies and Procedures.
- Conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times.
- Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our Code of Ethics was adopted pursuant to SEC rule 204A-1.

This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

LPL Financial's parent company, LPL Investment Holdings Inc. (ticker symbol LPLA), is a publicly traded company. Charles Schwab & Company's parent company, The Charles Schwab Corporation (tickers symbol SCHW), is a publicly traded company. Sterling Financial Group does not recommend or solicit orders of LPL Investment Holdings Inc. or Charles Schwab & Co. stock in Asset Management accounts.

## **Item 12 - Brokerage Practices**

Sterling Financial Group has entered into a relationship with LPL Financial and Charles Schwab & Co. to serve as custodian and executing broker/dealer for asset management accounts. In some cases, clients may choose to select another qualified custodian to execute asset management transactions. Sterling Financial Group requires that clients select and direct the custodian as the sole and exclusive broker/dealer to execute transactions for asset management accounts.

### **Products and Services Available to Us from Schwab**

Schwab Advisor Services is Charles Schwab & Company's business serving independent investment advisory firms like Sterling Financial Group. They provide Sterling Financial Group and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (i.e., Sterling Financial Group does not have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. Below is a detailed description of Schwab's support services:

*Schwab Services that Benefit You.* Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

*Schwab Services that Perhaps will Not Directly Benefit You.* Schwab also makes available to us other products and services that benefit us but perhaps will not directly benefit you or your account. These products and services assist Sterling Financial Group in managing and administering our clients' accounts. They

include investment research, both Schwab's own and that of third parties. Sterling Financial Group can use this research to service all, some or a substantial number of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

*Schwab Services that Generally Benefit Only Us.* Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab will at times provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also has the option to discount or waive its fees for some of these services or pay all or a part of a third party's fees. In addition, Schwab can provide Sterling Financial Group with other benefits such as occasional business entertainment of our personnel.

Sterling Financial Group's use of Schwab's services stated in the three preceding sections consists of utilizing their access to its institutional brokerage services, including the broad range of investment products, execution of the securities transactions and custody of our client assets. Schwab provides us access to Schwab Advisor Center, which provides us with client account data, facilitates trade execution, pricing and other market data, facilitates payment of our fees from our clients and other recording keeping functions. Sterling Financial Group does attend some of the education seminars and conferences that Schwab hosts.

### **Sterling Financial Group's Beneficial Interest in Schwab's Services**

The availability of these services from Schwab benefits us because Sterling Financial Group does not have to produce or purchase them. Sterling Financial Group does not have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. The \$10 million minimum could give Sterling Financial Group an incentive to recommend that you maintain your account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest.

Sterling Financial Group believes, however, that our selection of Schwab as custodian/broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Schwab's services (based on the factors discussed above) and not Schwab's services that benefit only us. We do not believe that maintaining at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

While Sterling Financial Group strives to achieve the best execution possible for client securities transactions and believes that these custodians have execution procedures that are designed to obtain the best execution possible, there can be no assurance that best execution can be obtained. By selecting a particular custodian, clients may not achieve the most favorable execution. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. Consistent with the foregoing, while Sterling Financial Group will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

To ensure that brokerage firms selected by Sterling Financial Group are conducting overall best qualitative execution, Sterling Financial Group will periodically (and no less often than annually) evaluate the trading process and brokers utilized. This evaluation will include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

LPL and Schwab generally do not charge Sterling Financial Group client accounts separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your LPL or Schwab account. For some accounts, LPL or Schwab may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. LPL and Schwab's commission rates and asset-based fees applicable to Sterling Financial Group client accounts were negotiated based on our commitment to maintain Sterling Financial Group client assets in accounts at Schwab or LPL. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be if Sterling Financial Group had not made the commitment. In addition to commissions, or asset-based fees Schwab charges a flat dollar amount as a "trade away" fee for each trade that Sterling Financial Group executes by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize trading costs, Sterling Financial Group exclusively uses LPL or Schwab to execute trades for your account. As stated under Item 5 – Fees and Compensation, in such cases where a custodian other than LPL is selected by the client, Sterling Financial Group will pay 5% of the advisory fee received from the client to LPL as an oversight fee. This presents a conflict of interest in that Sterling Financial Group has a financial incentive to recommend LPL as a custodian. Notwithstanding, Sterling Financial Group takes its responsibility to clients seriously, and will recommend a custodian to clients only if it believes it is in the client's best interest.

We seek to make available only custodians who will hold client assets and execute transactions on terms that we feel are most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, but not limited to the following:

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody).
- Capability to execute, clear and settle trades (buy and sell securities for your account).
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.).
- Breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds ("ETF"s), etc.).



- Availability of investment research and tools that assist us in making investment decisions.
- Competitive pricing of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them.
- Reputation, financial strength and stability of the provider.
- Their prior service to us and our clients.
- Availability of other products and services that benefit us, as discussed below.

For accounts receiving Portfolio Management Services, the selection of the advisory platform/program will determine the custodian that is used for the account.

Our firm has a non-soft-dollar arrangement with the custodians from which we receive services such as research and administrative functions including portfolio pricing, account statement generation and fee calculations, software and other technology that provide access to client account data, and attendance at conferences, meetings and other educational and/or social events. These services are intended to support our firm in conducting business and in serving the best interests of our clients. Our firm does not receive client brokerage commissions (or markups or markdowns) in exchange for research or other products or services. Our recommendation of a qualified custodian to our clients is based on our clients' interests in receiving the best execution and the level of competitive, professional services that the qualified custodians provide.

We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm. Although such concurrent authorizations could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds, using price averaging, proration and consistently non-arbitrary methods of allocation.

Sterling Financial Group typically aggregates orders. The advantages to aggregating are that the orders are handled in a way that mitigates market impact (as applicable and possible) and that each client gets the same (average) execution price. We may determine not to aggregate transactions, for example, based on the size of the trades, the number of client accounts, the timing of the trades, the liquidity of the securities, and the discretionary or non-discretionary nature of the trades. If orders are not aggregated, some clients purchasing securities around the same time may receive a less favorable price than other clients. This means that the practice of not aggregating may cost clients more money.

### **Item 13 - Review of Accounts**

Asset Management accounts are reviewed individually on a periodic basis, no less than annually and changes are made to such accounts as appropriate. Such factors that would cause a change to a client's asset allocation or individual investments would include, among other things, our assessment of the economic climate, specific investment attributes, outlooks and relative value, as well as our understanding of our client's overall objectives, cash flow needs and goals. Please see Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss, for details on our review process.

Any activity in an asset management account will be reflected on the monthly or quarterly statement from the account's custodian, showing account activity as well as positions held in the account at month end. For

managed accounts where LPL Financial serves as the custodian, you will also receive a detailed quarterly performance report prepared by LPL Financial on behalf of Sterling Financial Group.

Financial Planning clients do not receive reviews of their written plans as such services are deemed completed upon the delivery of their written financial plan or at the conclusion of the time frame or retainer agreement.

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

Currently, Sterling Financial Group does not have any solicitation or referral arrangements in place whereby the firm compensates referring parties for client referrals. However, Sterling Financial Group may in the future enter into agreements with individuals and organizations, some of whom may be affiliated or unaffiliated with the firm, that refer clients to the firm. All such agreements will be in writing and comply with the applicable state and federal regulations.

As a result of our relationship with LPL Financial, we may receive production bonuses, stock options to purchase shares of LPL Financial's parent company, and other things of value such as free or reduced-cost attendance at events hosted by LPL Financial. Such compensation may be based on overall revenue produced and/or on the amount of assets serviced through LPL Financial. Thus, there is a financial incentive for us to recommend that you establish an account at LPL Financial. We take our responsibilities to clients very seriously and we will only recommend that clients use LPL Financial for custody and hire us for management services if we believe it is appropriate and in the client's best interests.

#### **Item 15 – Custody**

We do not maintain actual custody of client funds or securities. Under federal regulations, Sterling Financial Group is deemed to have custody of client funds or securities by reason of the fact that we have authority to debit fees directly from the client's account. To mitigate any potential conflicts of interests, all Sterling Financial Group client account assets will be maintained with an independent qualified custodian.

All of our clients receive at least quarterly account statements directly from their custodians. If we decide to send account statements to clients, the account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm. We encourage our clients to raise any questions with us about the custody, safety or security of their assets. The account custodian will send you independent account statements listing your account balance(s), transaction history and any fee debits or other fees taken out of your account.

We will not have access to client funds or securities with the exception of having advisory fees deducted from client accounts and paid to us by the custodian. Any fee deductions will be done pursuant to client's written authorization provided to the custodian.

Under federal regulations, advisers with custody are generally required to undergo an independent verification of the assets for which the adviser has custody through an annual surprise examination by an independent certified public accountant. Advisers, such as Sterling Financial Group, which are deemed to have custody solely as a consequence of the authority to debit fees directly from client accounts are not required to obtain an independent verification of those client funds and securities maintained by a qualified custodian so long as certain steps are followed. This includes providing each client with an invoice or similar statement that includes the adviser's fee and information on how it was

calculated. Clients should understand that it is their responsibility to ensure that the fee calculation is correct, and not the custodian.

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

We accept discretionary authority over the management of client accounts. Our discretionary authority is limited only to affecting trades in client accounts; we will determine the type and the amount of securities that can be bought or sold without obtaining client consent for each trade. Our clients must sign a discretionary investment advisory agreement with our firm for the management of such accounts. Clients may also elect to have us maintain accounts on a non-discretionary or non-managed basis.

For accounts receiving Portfolio Management Services, we do not have any discretionary authority with respect to client accounts. The Portfolio Manager will maintain discretion and all responsibility for account management.

We do not exercise any discretionary authority when providing Financial Planning and Financial Consulting services.

### **Item 17 - Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to the client and ask the party who sent them to mail them directly in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

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

Sterling Financial Group does not require or solicit prepayment of more than \$1200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Sterling Financial Group does not have any financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.