

**Item 1: Cover Page**

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

December 12, 2024

**Clarity Financial Advisors LLC**

SEC No. 801-126778

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This brochure provides information about the qualifications and business practices of Clarity Financial Advisors LLC. If you have any questions about the contents of this brochure, please contact us at 816-786-5031 or email [info@theclarityfinancial.com](mailto:info@theclarityfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Clarity Financial Advisors LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

There are no material changes to this Brochure from the last annual update issued on March 18, 2024.

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## Item 4: Advisory Business

### A. Ownership/Advisory History

Clarity Financial Advisors LLC ("Clarity Financial" or the "firm") is a registered investment advisor with the U.S. Securities and Exchange Commission ("SEC"). The firm is organized as a limited liability company ("LLC") under the laws of the State of Florida. Clarity Financial was founded in September 2022 and is owned and operated by Trevor K. Shultz (Principal and Chief Compliance Officer) and William A. Root (Principal). This disclosure brochure provides information regarding the qualifications, business practices, and the advisory services provided by Clarity Financial.

### B. Advisory Services Offered

#### Investment Management Services

Clarity Financial provides customized investment advisory solutions for its clients. This is achieved through continuous personal client contact and interaction while providing discretionary investment management and related advisory services. Clarity Financial works closely with each client to identify their investment goals and objectives as well as risk tolerance and financial situation in order to create a portfolio strategy. For its discretionary asset management services, Clarity Financial receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in Item 8 of this brochure.

Clarity Financial's investment strategies are primarily long-term focused, but the firm may buy, sell, or re-allocate positions that have been held for less than one year to meet the objectives of the client or due to market conditions. Clarity Financial will construct, implement, and monitor the portfolio to ensure it meets the goals, objectives, circumstances, and risk tolerance agreed to by the client. Each client will have the opportunity to place reasonable restrictions on the types of investments to be held in their respective portfolio, subject to acceptance by the firm.

Clarity Financial evaluates and selects investments for inclusion in client portfolios only after applying its internal due diligence process. Clarity Financial may recommend, on occasion, redistributing investment allocations to diversify the portfolio. Clarity Financial may recommend specific positions to increase sector or asset class weightings. Clarity Financial may recommend employing cash positions as a possible hedge against market movement.

Clarity Financial may recommend selling positions for reasons that include, but are not limited to, harvesting capital gains or losses, business or sector risk exposure to a specific security or class of securities, overvaluation or overweighting of the position(s) in the portfolio, change in risk tolerance of the client, generating cash to meet client needs, or any risk deemed unacceptable for the client's risk tolerance.

Clients have the right to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio (must be in writing and sent to the firm), and should promptly notify the firm in writing of any changes in such restrictions or in the client's

personal financial circumstances, investment objectives, goals and tolerance for risk. Clarity Financial will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Clarity Financial will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### **Retirement Plan Participant Account Management (Discretionary)**

We use a third-party platform (Pontera Order Management System) to facilitate management of held away assets such as defined contribution plan participant accounts, with discretion. The platform allows us to avoid being considered to have custody of client funds since we do not have direct access to client log-in credentials to effect trades. We are not affiliated with the platform in any way and receive no compensation from them for using their platform. A link will be provided to the client allowing them to connect an account(s) to the platform. Once client account(s) is connected to the platform, we will review the current account allocations. When deemed necessary, we will rebalance the account considering client investment goals and risk tolerance, and any change in allocations will consider current economic and market trends. The goal is to improve account performance over time, minimize loss during difficult markets, and manage internal fees that harm account performance. Client account(s) will be reviewed at least quarterly and allocation changes will be made as deemed necessary.

We may provide these services or, alternatively, may arrange for the Plan's other providers to offer these services, as agreed upon between our firm and the client.

#### **Retirement Accounts**

When Clarity Financial provides investment advice to clients regarding ERISA retirement accounts or individual retirement accounts ("IRAs"), the firm is a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act ("ERISA") and/or the Internal Revenue Code ("IRC"), as applicable, which are laws governing retirement accounts. When deemed to be in the client's best interest, Clarity Financial will provide investment advice to a client regarding a distribution from an ERISA retirement account or to roll over the assets to an IRA, or recommend a similar transaction including rollovers from one ERISA sponsored plan to another, one IRA to another IRA, or from one type of account to another account (e.g., commission-based account to fee-based account). Such a recommendation creates a conflict of interest if the firm will earn a new (or increase its current) advisory fee as a result of the transaction. No client is under any obligation to roll over a retirement account to an account managed by Clarity Financial.

#### **Use of Independent Managers**

Clarity Financial may recommend that a client utilize one or more unaffiliated investment managers or investment platforms (collectively "independent manager(s)") for all or a portion of a client's investment portfolio. In such instances, the client may be required to authorize and enter into an advisory agreement with the independent manager(s) that defines the terms in which the independent manager(s) will provide investment management and related

services. Clarity Financial may also assist in the development of the initial policy recommendations and managing the ongoing client relationship. Clarity Financial will perform initial and ongoing oversight and due diligence over the selected independent manager(s) to ensure the independent manager(s)' strategies and target allocations remain aligned with its clients' investment objectives and overall best interests. The client, prior to entering into an agreement with unaffiliated investment manager(s) available on one or more platform(s) that the firm has an agreement with, will be provided with the independent manager(s)' Form ADV 2A (or a brochure that makes the appropriate disclosures).

### **Financial Planning and Consulting Services**

Clarity Financial will typically provide a variety of financial planning and consulting services to clients. Services may be included as part of an overall wealth management engagement or separately billed pursuant to a written financial planning agreement.

Services are offered in several areas of a client's financial situation, depending on their goals and objectives. Generally, such financial planning services involve preparing a formal financial plan or rendering a specific financial consultation based on the client's financial goals and objectives. This planning or consulting may encompass one or more areas of need, including but not limited to, investment planning, retirement planning, personal savings, education savings, insurance needs, and other areas of a client's financial situation.

A financial plan developed for, or financial consultation rendered to, the client will usually include general recommendations for a course of activity or specific actions to be taken by the client. For example, recommendations may be made that the client start or revise their investment programs, commence or alter retirement savings, establish education savings and/or charitable giving programs.

Clarity Financial may also refer clients to an accountant, attorney, or other specialists as appropriate for their unique situation. For certain financial planning engagements, Clarity Financial will provide a written summary of the client's financial situation, observations, and recommendations. For consulting or ad-hoc engagements, Clarity Financial may not provide a written summary. Plans or consultations are typically completed within six (6) months of contract date, assuming all information and documents requested are provided promptly.

Financial planning and consulting recommendations pose a conflict between the interests of Clarity Financial and the interests of the client. For example, Clarity Financial has an incentive to recommend that clients engage the firm for investment management services or to increase the level of investment assets with Clarity Financial, as it would increase the amount of advisory fees paid to the firm. Clients are not obligated to implement any recommendations made by Clarity Financial or maintain an ongoing relationship with the firm. If the client elects to act on any of the recommendations made by Clarity Financial, the client is under no obligation to implement the transaction through Clarity Financial.

### **Basic Financial Plan as Part of AUM Fee**

Clients with a minimum of \$100,000 in assets under management with Clarity Financial are offered a basic financial plan at no additional charge. The basic financial plan will include (i) a

financial report overviewing their assets, liabilities, income, and relevant insurance; and (ii) a two-page financial plan that lists their goals, account recommendations, contribution recommendations, and several relevant notes about their overall financial picture.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Prior to engaging Clarity Financial to provide investment advisory services, each client is required to enter into one or more agreements with Clarity Financial that define the terms, conditions, authority and responsibilities of Clarity Financial and the client. These services may include:

- Establishing an Investment Strategy – Clarity Financial, in connection with the client, will develop a strategy that seeks to achieve the client’s goals and objectives.
- Asset Allocation – Clarity Financial will develop a strategic asset allocation that is targeted to meet the investment objectives, time horizon, financial situation and tolerance for risk for each client.
- Portfolio Construction – Clarity Financial will develop a portfolio for the client that is intended to meet the stated goals and objectives of the client.
- Investment Management and Supervision – Clarity Financial will provide investment management and ongoing oversight of the client’s investment portfolio.

Each client’s account will be managed on the basis of the client’s financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

Clarity Financial does not participate in wrap fee programs, where brokerage commissions and transaction costs are included in the asset-based fee charged to the client.

### **E. Client Assets Under Management**

As of December 31, 2023, Clarity Financial manages \$79,897,323 in client assets, all of which are managed on a discretionary basis. Clients may request more current information at any time by contacting the Advisor.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### Investment Management Services Fees

The annual fee for investment management services will be charged as a percentage of assets under management according to the following fee schedule, which represents the firm's maximum fees for individual services.

| <u>Aggregate Value of Managed Assets</u> | <u>Annual Fee Rate</u> |
|--|------------------------|
| All Assets                               | 1.65%                  |

Investment management fees are paid monthly in advance, pursuant to the terms of the investment advisory agreement. The fee is negotiable based on several factors, including: the scope and complexity of the services to be provided; the level of assets to be managed; the inclusion of financial planning services; and the overall relationship with Clarity Financial. Relationships with multiple objectives, specific reporting requirements, portfolio restrictions and other complexities may be charged a higher fee. The investment advisory fee in the first month of service is prorated from the inception date of the account(s) to the end of the first month. The client's fees will take into consideration the aggregate assets under management with Clarity Financial. All securities held in accounts managed by Clarity Financial will be independently valued by the qualified custodian. Clarity Financial will conduct periodic reviews of the custodian's valuation to ensure accurate billing.

Asset-based fees are always subject to the investment advisory agreement between the client and Clarity Financial. Such fees are payable monthly in advance and are based on the market value of assets under management at the end of the prior month. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month. Clarity Financial may modify the fee at any time upon 30 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

#### Use of Independent Managers

Clients referred by Clarity Financial to an independent manager will be charged a separate investment management fee by the independent manager.

#### Model Marketplace

Clarity Financial participates in the Model Marketplace of Altruist LLC, an SEC-registered investment adviser and affiliate of Altruist Financial LLC. Through the Model Marketplace, Clarity Financial has access to model portfolios, including Altruist LLC-generated portfolios and third-party portfolios, to assist it in managing or advising Clarity Financial client accounts. Altruist LLC's Model Marketplace fees – which range between 0.00% and 1.00% and are listed in the Model Marketplace Fee Schedule available at [altruist.com/legal](http://altruist.com/legal) – are automatically deducted from Clarity Financial's house account or passed through to and debited from clients' accounts,



according to the instruction of Clarity Financial. Altruist LLC and its affiliates do not act as investment advisers or fiduciary to Clarity Financial clients. Clarity Financial is responsible for suitability of all investment decisions and transactions for client accounts subscribed to model portfolios through the Model Marketplace.

### **Financial Planning and Consulting Services Fees**

Clarity Financial offers financial planning services either on an hourly basis or a fixed engagement fee. Hourly fees are \$300 per hour. Fixed fees are based on the expected number of hours to complete the engagement at the negotiated hourly rate. Fixed fee engagements typically range from \$500 to \$5,000. Fees may be negotiable based on the nature and complexity of the services to be provided and the overall relationship with the firm. An estimate for total hours and/or total costs will be provided to the client prior to engaging for these services.

Clients with a minimum of \$100,000 in assets under management with Clarity Financial are offered a basic financial plan at no additional charge.

## **B. Client Payment of Fees**

### **Investment Management Services**

Clarity Financial generally requires fees to be prepaid on a monthly basis. Clarity Financial requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

Clarity Financial will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

A client investment advisory agreement may be canceled at any time by the client, or by Clarity Financial with 30 days' prior written notice to the client. Upon termination, any unearned, prepaid fees will be promptly refunded.

### **Use of Independent Managers**

For clients allocated to an independent manager, the client's fee is typically billed or deducted from the client's account(s) with the respective manager separate from Clarity Financial's fee.

In the event that a client should wish to terminate their relationship with the independent manager, the terms for termination will be set forth in the respective agreements between the client and that independent manager. Clarity Financial will assist the client with the termination and transition as appropriate.

### **Financial Planning Services**

Financial planning fees may be invoiced up to fifty percent (50%) of the expected total fee upon execution of the financial planning agreement. The balance shall be invoiced upon completion of the agreed upon deliverable(s).

A client financial planning agreement may be canceled at any time by the client, or by Clarity Financial with 30 days' prior written notice to the client. The client may also terminate the financial planning agreement within five (5) business days of signing the agreement at no cost to the client. After the five-day period, the client will incur charges for bona fide advisory services rendered to the point of termination and such fees will be due and payable by the client. Upon termination, the client shall be billed for actual hours logged on the planning project times the contractual hourly rate or in the case of a fixed fee engagement, the percentage of the engagement scope completed by Clarity Financial. Upon termination, the firm will promptly refund any unearned, prepaid planning fees.

### **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using Clarity Financial may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

### **D. External Compensation for the Sale of Securities to Clients**

Clarity Financial's financial advisors are paid either a percentage of the fees we collect from you or a salary and bonus. Clarity Financial's advisory professionals may receive commission-based compensation for the sale of insurance products. Please see Item 10.C. for detailed information and conflicts of interest.

### **E. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered through such custodian(s) that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** There are certain programs in which we participate where a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:*** Revenue share class/12b-1 fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances where the custodian receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm's clients.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

Clarity Financial does not charge performance-based fees for its investment advisory services. The fees charged by Clarity Financial are as described in Item 5 above and are not based upon the capital appreciation of the funds or securities held by any client. Clarity Financial does not manage any proprietary investment funds or limited partnerships (for example, a mutual fund or a hedge fund) and has no financial incentive to recommend any particular investment options to its clients.

## **Item 7: Types of Clients**

Clarity Financial offers its investment services to various types of clients including individuals, high-net-worth individuals, trusts, estates, and small businesses.

Clarity Financial generally does not impose a minimum relationship size.

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

### A. Methods of Analysis and Investment Strategies

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear. There is no guarantee that any specific investment or strategy will be profitable for a particular client.**

#### Methods of Analysis

Clarity Financial uses a variety of sources of data to conduct its economic, investment and market analysis, which may include economic and market research materials prepared by others, conference calls hosted by individual companies or mutual funds, corporate rating services, annual reports, prospectuses, and company press releases, and financial newspapers and magazines. 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.

Clarity Financial and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Fundamental analysis is a method of evaluating the intrinsic value of an asset and analyzing the factors that could influence its price in the future. This form of analysis is based on external events and influences, as well as financial statements and industry trends.
- Factor investing is an investment approach that involves targeting specific drivers of return across asset classes. There are two main types of factors: macroeconomic and style.
- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, Clarity Financial reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. Clarity Financial may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

### **Mutual Funds and Exchange-Traded Funds, Individual Securities, and Third-Party Separate Account Managers**

Clarity Financial may recommend “institutional share class” mutual funds, exchange-traded funds (“ETFs”), and individual securities (including fixed income instruments). Clarity Financial may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client’s portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that Clarity Financial will take into account when recommending managers to clients.

Clarity Financial's selection process cannot ensure that money managers will perform as desired, and Clarity Financial will have no control over the day-to-day operations of any of its selected money managers. Clarity Financial would not necessarily be aware of certain activities at the underlying money manager level, including without limitation a money manager's engaging in unreported risks, investment “style drift,” or even regulatory breaches or fraud.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), and managers is set forth below.

Clarity Financial has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform or distribute research of individual securities
- perform billing and certain other administrative tasks

Clarity Financial may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, and managers to clients as appropriate under the circumstances.

Clarity Financial reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager’s contribution to the investment return (e.g., manager’s alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor or manager’s fee structure
- the relevant portfolio manager’s tenure

- due diligence of the manager that looks at multiple factors: expense, manager experience, philosophy of investing—passive vs. active and where/why they're active in certain areas, concentration of holdings

Qualitative criteria used in selecting/recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by Clarity Financial on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect any of the following: efforts to time the market, engage in portfolio pumping, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by Clarity Financial (both of which are negative factors in implementing an asset allocation structure).

Clarity Financial may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. Clarity Financial will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment.

Clarity Financial will regularly review the activities of mutual funds and managers utilized for the client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest.

### **Material Risks of Investment Instruments**

Clarity Financial generally invests in the following types of securities:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Leveraged and inverse exchange-traded funds
- Exchange-traded notes
- Fixed income securities
- Fixed equity annuities
- Fixed equity indexed annuities



- Variable annuities
- Real Estate Investment Trusts ("REITs")

### **Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

### **Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

### **Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. ETFs have embedded expenses that the client indirectly bears.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

### **Leveraged and Inverse Exchange-Traded Funds ("ETFs")**

Leveraged ETFs employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. The use of leverage typically increases risk for an investor. However, unlike utilizing margin or shorting securities in your own account, you cannot lose more than your original investment. An inverse ETF is designed to track, on a daily basis, the inverse of its benchmark. Inverse ETFs utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives. Leverage and inverse ETFs reset each day; as such, their performance can quickly diverge from the performance of the underlying index or benchmark. An investor could suffer significant losses even if the long-term performance of the index showed a gain. Engaging in short sales and using swaps, futures, contracts, and other derivatives can expose the ETF.

There is always a risk that not every leveraged or inverse ETF will meet its stated objective on any given trading day. An investor should understand the impact an investment in the ETF could have on the performance of their portfolio, taking into consideration goals and tolerance for risk. Leveraged or inverse ETFs may be less tax-efficient than traditional ETFs, in part because daily resets can cause the ETF to realize significant short-term capital gains that may not be offset by a loss. Be sure to check with your tax advisor about the consequences of investing in a leveraged or inverse ETF. Leveraged and Inverse ETFs are not suited for long-term investment strategies. These are not appropriate for buy-and-hold or conservative investors and are more suitable for investors who understand leverage and are willing to assume the risk of magnified potential losses. These funds tend to carry higher fees, due to active management, that can also affect performance.

### **Exchange-Traded Notes ("ETN")**

ETNs are structured debt securities. ETN liabilities are unsecured general obligations of the issuer. Most ETNs are designed to track a particular market segment or index. ETNs have expenses associated with their operation. When a fund invests in an ETN, in addition to directly bearing expenses associated with its own operations, it will bear its pro rata portion of the ETN's expenses. The risks of owning an ETN generally reflect the risks of owning the underlying securities the ETN is designed to track, although lack of liquidity in an ETN could result in it being more volatile than the underlying portfolio of securities. In addition, because of ETN expenses, compared to owning the underlying securities directly it may be more costly to own an ETN. The value of an ETN security should also be expected to fluctuate with the credit rating of the issuer.

### **Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The

shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

### **Fixed Equity Annuities**

A fixed annuity is a contract between an insurance company and a customer, typically called the annuitant. The contract obligates the company to make a series of fixed annuity payments to the annuitant for the duration of the contract. The annuitant surrenders a lump sum of cash in exchange for monthly payments that are guaranteed by the insurance company. Please note the following risks: (i) Spending power risk. Social Security retirement benefits have cost-of-living adjustments. Most fixed annuities do not. Consequently, the spending power provided by the monthly payment may decline significantly over the life of the annuity contract because of inflation, (ii) Death and survivorship risk. In a conventional fixed annuity, once the annuitant has turned over a lump sum premium to the insurance company, it will not be returned. The annuitant could die after receiving only a few monthly payments, but the insurance company may not be obligated to give the annuitant's estate any of the money back. A related risk is based on the financial consequences for a surviving spouse. In a standard single-life annuity contract, a survivor receives nothing after the annuitant dies. That may put a severe dent in a spouse's retirement income. To counteract this risk, consider a joint life annuity. (iii) Company failure risk. Private annuity contracts are not guaranteed by the FDIC, SIPC, or any other federal agency. If the insurance company that issues an annuity contract fails, no one in the federal government is obligated to protect the annuitant from financial loss. Most states have guaranty associations that provide a level of protection to citizens in that state if an insurance company also doing business in that state fails. A typical limit of state protection, if it applies at all, is \$100,000. To control this risk, contact the state insurance commissioner to confirm that your state has a guaranty association and to learn the guarantee limits applicable to a fixed annuity contract. Based on that information, consider dividing fixed annuity contracts among multiple insurance companies to obtain the maximum possible protection. Also check the financial stability and credit ratings of the annuity insurance companies being considered. A.M. Best and Standard & Poor's publish ratings information.

### **Fixed Equity Indexed Annuities**

An equity-indexed annuity is a type of fixed annuity that is distinguished by the interest yield return being partially based on an equities index, typically the S&P 500. The returns (in the form of interest credited to the contract) can consist of a guaranteed minimum interest rate and an interest rate linked to a market index. The guaranteed minimum interest rate usually ranges from 1 to 3 percent on at least 87.5 percent of the premium paid. As long as the company offering the annuity is fiscally sound enough to meet its obligations, you will be guaranteed to receive this return no matter how the market performs. Your index-linked returns will depend on how the index performs but, generally speaking, an investor with an indexed annuity will not see his or her rate of return fully match the positive rate of return of the index to which the annuity is linked — and could be significantly less. One major reason for this is that returns are subject to contractual limitations in the form of caps and participation rates. Participation rates are the percentage of an index's returns that are credited to the annuity. For instance, if your annuity has a participation rate of 75 percent,

then your index-linked returns would only amount to 75 percent of the gains associated with the index. Interest caps, meanwhile, essentially mean that during big bull markets, investors won't see their returns go sky-high. For instance, if an index rises 12 percent, but an investor's annuity has a cap of 7 percent, his or her returns will be limited to 7 percent.

Some indexed annuity contracts allow the issuer to change these fees, participation rates and caps from time to time. Investors should also be aware that trying to withdraw the principal amount from a fixed indexed annuity during a certain period — usually within the first 9 or 10 years after the annuity was purchased — can result in fees known as surrender charges, and could also trigger tax penalties. In fact, under some contracts if withdrawals are taken amounts already credited will be forfeited. After paying surrender charges an investor could lose money by surrendering their indexed annuity too soon.

### **Variable Annuities**

Variable Annuities are long-term financial products designed for retirement purposes. In essence, annuities are contractual agreements in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. There are contract limitations and fees and charges associated with annuities, administrative fees, and charges for optional benefits. They also may carry early withdrawal penalties and surrender charges, and carry additional risks such as the insurance carrier's ability to pay claims. Moreover, variable annuities carry investment risk similar to mutual funds. Investors should carefully review the terms of the variable annuity contract before investing.

### **Real Estate Investment Trusts ("REITs")**

A REIT is a tax designation for a corporate entity which pools capital of many investors to purchase and manage real estate. Many REITs invest in income-producing properties in the office, industrial, retail, and residential real estate sectors. REITs are granted special tax considerations, which can significantly reduce or eliminate corporate income taxes. In order to qualify as a REIT and for these special tax considerations, REITs are required by law to distribute 90% of their taxable income to investors. REITs can be traded on a public exchange like a stock, or be offered as a non-traded REIT. REITs, both public exchange-traded and non-traded, are subject to risks including volatile fluctuations in real estate prices, as well as fluctuations in the costs of operating or managing investment properties, which can be substantial. Many REITs obtain management and operational services from companies and service providers that are directly or indirectly related to the sponsor of the REIT, which presents a potential conflict of interest that can impact returns on investments.

Non-traded REITs include: (i) A REIT that is registered with the Securities and Exchange Commission (SEC) but is not listed on an exchange or over-the-counter market (non-exchange traded REIT); or, (i) a REIT that is sold pursuant to an exemption to registration (Private REIT). Non-traded REITs are generally blind pool investment vehicles. Blind pools are limited partnerships that do not explicitly state their future investments prior to beginning their capital-raising phase. During this period of capital-raising, non-traded REITs often pay distributions to their investors.

The risks of non-traded REITs are varied and significant. Because they are not exchange-traded investments, they often lack a developed secondary market, thus making them illiquid investments. As blind pool investment vehicles, non-traded REITs' initial share prices are not related to the underlying value of the properties. This is because non-traded REITs begin and continue to purchase new properties as new capital is raised. Thus, one risk for non-traded REITs is the possibility that the blind pool will be unable to raise enough capital to carry out its investment plan. After the capital raising phase is complete, non-traded REIT shares are infrequently re-valued and thus may not reflect the true net asset value of the underlying real estate investments. Non-traded REITs often offer investors a redemption program where the shares can be sold back to the sponsor; however, those redemption programs are often subject to restrictions and may be suspended at the sponsor's discretion. While non-traded REITs may pay distributions to investors at a stated target rate during the capital-raising phases, the funds used to pay such distributions may be obtained from sources other than cash flow from operations, and such financing can increase operating costs.

With respect to publicly traded REITs, publicly traded REITs may be subject to additional risks and price fluctuations in the public market due to investors' expectations of the individual REIT, the real estate market generally, specific sectors, the current yield on such REIT, and the current liquidity available in public market. Although publicly traded REITs offer investors liquidity, there can be constraints based upon current supply and demand. An investor when liquidating may receive less than the intrinsic value of the REIT.

## **B. Investment Strategy and Method of Analysis Material Risks**

Our investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

### **Margin Leverage**

Although Clarity Financial, as a general business practice, does not utilize leverage, there may be instances in which the use of leverage may be appropriate for certain clients and situations or requested by the clients for personal use. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of

securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **Short-Term Trading**

Although Clarity Financial, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **Short Selling**

Clarity Financial generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

### **Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

### **Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge

security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

Clarity Financial as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading

#### **Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the-money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.



### **C. Concentration Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.



## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither Clarity Financial nor its affiliates, employees, or independent contractors are registered broker-dealers and do not have an application to register pending.

### **B. Futures or Commodity Registration**

Neither Clarity Financial nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **Insurance Activities**

Certain managers, members, and registered employees of Clarity Financial are licensed insurance agents and may recommend insurance products offered by such carriers for whom they function as an agent and receive a commission for doing so. Please be advised there is a conflict of interest in that there is an economic incentive to recommend insurance and other products of such carriers. Please also be advised that Clarity Financial strives to put its clients' interests first and foremost, and clients may utilize any insurance carrier or insurance agency they desire.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Clarity Financial may recommend independent managers to manage a portion of their investment portfolio. In such arrangements, the firm will not receive any solicitor or sales compensation for recommending the third-party manager. Clarity Financial's fees are separate and in addition to the third-party manager's fee.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, Clarity Financial has adopted policies and procedures designed to detect and prevent insider trading. In addition, Clarity Financial has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of Clarity Financial's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of Clarity Financial. Clarity Financial will send clients a copy of its Code of Ethics upon written request.

Clarity Financial has policies and procedures in place to ensure that the interests of its clients are given preference over those of Clarity Financial, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

Clarity Financial does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, Clarity Financial does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase or Sale of Same Securities Recommended to Clients and Conflicts of Interest**

Clarity Financial, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase or sell the same securities as are purchased or sold for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which Clarity Financial specifically prohibits. Clarity Financial has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account

- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow Clarity Financial's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Clarity Financial, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other Clarity Financial clients. Clarity Financial will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of Clarity Financial to place the clients' interests above those of Clarity Financial and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### **Custodian Recommendations**

Clarity Financial offers investment advisory services through the custodial platform offered by Altruist Financial LLC ("Altruist"), an unaffiliated SEC-registered broker dealer and FINRA/SIPC member. Custody, clearing, and execution services are provided by Altruist as a self-clearing broker-dealer. Clarity Financial's clients establish brokerage accounts through Altruist. Clarity Financial maintains an institutional relationship with Altruist whereby Altruist provides certain benefits to Clarity Financial, including a fully digital account opening process, a variety of available investments, and integration with software tools that can benefit Clarity Financial and its clients. (Please see the disclosures under Item 14 of this Brochure.)

Clients are not obligated to use the custodian recommended by Clarity Financial and will not incur any extra fee or cost associated with using a custodian not recommended by Clarity Financial. However, Clarity Financial may be limited in the services it can provide if the recommended custodian is not engaged. Clarity Financial may recommend the custodian based on criteria such as, but not limited to, reasonableness of commissions charged to the client, services made available to the client, and its reputation and/or the location of the custodian's offices.

In certain instances and subject to approval by Clarity Financial, Clarity Financial will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by Clarity Financial will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### **Soft Dollar Arrangements**

Clarity Financial does not utilize soft dollar arrangements. Clarity Financial does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **Brokerage for Client Referrals**

Clarity Financial does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **Directed Brokerage**

### **Clarity Financial Recommendations**

Clarity Financial typically recommends Altruist as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **Client-Directed Brokerage**

Occasionally, clients may direct Clarity Financial to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage Clarity Financial derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. Clarity Financial loses the ability to aggregate trades with other Clarity Financial advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **Best Execution**

Clarity Financial, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. Clarity Financial recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. Clarity Financial will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, Clarity Financial seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of Clarity Financial's knowledge, these custodians provide high-quality execution, and Clarity Financial's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, Clarity Financial believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

### **Security Allocation**

Since Clarity Financial may be managing accounts with similar investment objectives, Clarity Financial may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Clarity Financial in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Clarity Financial's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Clarity Financial will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

Clarity Financial's advice to certain clients and entities and the action of Clarity Financial for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of Clarity Financial with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of Clarity Financial to or on behalf of other clients.

### **Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This

is true even if Clarity Financial believes that a larger size block trade would lead to best overall price for the security being transacted.

### **Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

Clarity Financial acts in accordance with its duty to seek best price and execution and will not continue any arrangements if Clarity Financial determines that such arrangements are no longer in the best interest of its clients.

### **Trade Errors**

From time-to-time Clarity Financial may make an error in submitting a trade order on the client's behalf. When this occurs, Clarity Financial may place a correcting trade with the broker-dealer. If an investment gain results from the correcting trade, the gain will remain in client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for client to retain the gain, or Clarity Financial confers with client and client decides to forego the gain (e.g., due to tax reasons).



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## Item 13: Review of Accounts

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Accounts are reviewed by the Clarity Financial investment adviser representative servicing the client's account, as well as periodically by the CCO. The frequency of reviews is determined based on the client's investment objectives, but reviews are conducted no less frequently than semi-annually. More frequent reviews may also be triggered by a change in the client's investment objectives, tax considerations, large deposits or withdrawals, large purchases or sales, loss of confidence in the underlying investment, or changes in macro-economic climate.

Financial planning clients receive their financial plans and recommendations at the time service is completed. There are no post-plan reviews unless the client engages Clarity Financial for asset management services.

### **B. Review of Client Accounts on Non-Periodic Basis**

Clarity Financial may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how Clarity Financial formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

Altruist provides reports to the client on a quarterly basis, information on contributions and withdrawals in the client's investment portfolio, and the performance of the client's portfolio measured against appropriate benchmarks (including benchmarks selected by the client).

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by Clarity Financial.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

#### **Altruist Custodial Platform**

As disclosed under Item 12, Clarity Financial has established an institutional relationship with Altruist to assist in managing client account(s). Access to the Altruist platform is provided at no charge to Clarity Financial. Clarity Financial receives access to software and related support without cost because the firm renders investment management services to clients that maintain assets at Altruist. The software and related systems support may benefit Clarity Financial, but not its clients directly. In fulfilling its duties to its clients, the firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits from a custodian creates a potential conflict of interest since these benefits may influence the firm's recommendation of this custodian over one that does not furnish similar software, systems support, or services.

#### **Advisor Tech Collection Program**

Clarity Financial clients establish brokerage accounts with Altruist as custodian. Clarity Financial maintains an institutional relationship with Altruist whereby Altruist provides certain benefits to Clarity Financial ("Support Services"). Altruist pays for or reimburses Clarity Financial for the costs of certain technology solutions to help facilitate Clarity Financial's practices and to streamline Clarity Financial's operations. The payments may be substantial and are based on Clarity Financial clients adding and/or transferring to and maintaining a certain amount (currently five million dollars (\$5,000,000)) in assets on Altruist's platform. The benefits provided to or on behalf of Clarity Financial will not directly benefit client accounts. The fees Clarity Financial charges will not be reduced by the value of the Support Services received by Clarity Financial. The benefits provided to or on behalf of Clarity Financial are compensation to Clarity Financial in connection with providing advice to clients and therefore should be considered in assessing the reasonableness of the compensation arrangement between Clarity Financial and clients. Access to such economic benefits creates a financial incentive for Clarity Financial to maintain client accounts through Altruist, which results in a conflict of interest for Clarity Financial.

### **B. Advisory Firm Payments for Client Referrals**

Clarity Financial has entered into a referral service agreement with Ramsey Solutions under which Clarity Financial pays Ramsey Solutions ongoing compensation for participating in the SmartVestor™ referral program. This constitutes a conflict of interest, as Ramsey Solutions is compensated by Clarity Financial to refer prospective clients to Clarity Financial.

## Item 15: Custody

Clarity Financial is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
  1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
  2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
  3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
  4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
  5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
  6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
  7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

Individual advisory clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. Clients are urged to compare the account balance(s) shown on their account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to Clarity Financial with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, Clarity Financial will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement. In addition, subject to the terms of its investment advisory agreement, Clarity Financial may be granted discretionary authority for the retention of independent third-party investment management firms. Investment limitations may be designated by the client as outlined in the investment advisory agreement. Please see the applicable third-party manager's disclosure brochure for detailed information relating to discretionary authority.

## Item 17: Voting Client Securities

Clarity Financial does not take discretion with respect to voting proxies on behalf of its clients. All proxy material will be forwarded to the client by the client's custodian for the client's review and action. Clients may contact the firm with questions regarding proxies they have received.

Clarity Financial will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of Clarity Financial supervised and/or managed assets. In no event will Clarity Financial take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, Clarity Financial will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. Clarity Financial has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. Clarity Financial also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, Clarity Financial has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where Clarity Financial receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

Clarity Financial does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

Clarity Financial does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.