

Firm Brochure
Item 1 - Cover Page



The Sterling Group
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Pasadena, CA 91101

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www.tsgadvisor.com
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This brochure provides information about the business practices and qualifications of The Sterling Group. If you have any questions about the contents of this brochure, please contact us by telephone at (626)440-5995 or email at contact@tsgadvisor.com. 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 The Sterling Group is also available on the SEC's website at www.adviserinfo.sec.gov.

Please note that the use of the term "registered investment adviser" and description of The Sterling Group 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 2 - Material Changes to Our Part 2A of Form ADV: Firm Brochure

The Sterling Group is required to advise you of any material changes to our Firm Brochure ("Brochure") from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure. We must state clearly that we are discussing only material changes since the last annual update of our Brochure, and we must provide the date of the last annual update of our Brochure.

Please note that we do not have to provide this information to a client or prospective client who has not received a previous version of our brochure.

Our last annual updating amendment was filed on 03/19/2012:

As of October 2012, our primary office location has been moved to the following location:

225 S. Lake Avenue, Suite 600
Pasadena, CA 91101

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Item 4 - Advisory Business

The Sterling Group is an investment advisory firm comprised of a team of professionals who oversee clients' assets and provide a range of comprehensive wealth management services. Our team has the skills 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. The Sterling Group has been helping clients in formulating and implementing complex wealth management strategies and managing their assets for over two decades.

The Sterling Group was established in 1990 and co-founded by Anita Chalmers. Ms. Chalmers lead the firm for ten years before merging with the current owners, C. Hunt Salembier and Michael Hatch.

Mr. Salembier and Mr. Hatch began their careers as financial advisors at American Express Financial Advisors. In 1998 they left American Express to create their own independent wealth management firm. They subsequently merged their firm with The Sterling Group in 2000. Ms. Chalmers retired in 2008 and Mr. Hatch and Mr. Salembier remain the sole principals, each owning fifty percent of the firm.

As of December 31, 2012 The Sterling Group has \$213,000,000 assets under management on a discretionary basis.

Written Financial Planning and Financial Consulting:

Written Financial Planning: The Sterling Group provides a variety of written financial planning services that are tailored to our clients' specific needs and circumstances. Our services are rendered for a flat fee which gives us the freedom to apply an objective approach to creating customized financial plans and consultations, 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. Our planning services typically encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Protection Planning, Corporate Structure and Succession Planning, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis.

When providing written financial planning, we rely heavily on data and information provided by the client. Information 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. For example, recommendations may be made for the client to begin or revise investment programs, create or revise wills or trusts through qualified legal counsel, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should be noted that we will refer clients to an accountant, attorney or other specialist, as is necessary. After the completion of our analysis we

provide the client with a written summary of their financial situation, our observations, and recommendations. Written plans are typically completed within six months of the client signing a Service Agreement with us, assuming that all the information and documents we request from the client are promptly provided. Once the written financial plan is completed and delivered to the client, implementation of any recommendations is at the discretion of the client.

Financial Consulting: The Sterling Group provides financial consulting for an hourly fee. The financial consulting process is generally less formal than our written financial planning service and 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.

Fee Based Investment Management:

1) Asset Management: The Sterling Group provides investment strategies that are tailored to our client's specific needs. Each portfolio is initially 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 adviser, 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 accounts regularly, conduct a semi-annual review and rebalance the portfolio if necessary, based upon the client's individual needs, stated goals and objectives. The Sterling Group takes a calm and measured 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.

2) Portfolio Management Services: When appropriate we have the ability to provide advisory services through certain programs sponsored by LPL Financial, our custodian. Below is a brief description of the available programs. 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 see the LPL Financial Form ADV Part 2 or the applicable program's Wrap Fee Program Brochure and the applicable LPL Financial client agreement.

Manager Access Select Program (MAS): MAS provides clients access to the investment advisory services of professional portfolio management firms for the individual management of client accounts. We will assist clients in identifying third party Portfolio Managers from a list of Portfolio Managers made available by LPL Financial. The Portfolio Manager manages client's assets on a discretionary basis. We will provide initial and ongoing assistance regarding the Portfolio Manager selection process. A minimum account value of \$100,000 is required for Manager Access Select, however, in certain instances the minimum account size may be lower or higher.

Manager Access Network (MAN): MAN enables high-net-worth investors to access a variety of institutional Portfolio Managers at significantly lower account minimums. By using separate account

managers, clients can enjoy a higher level of specialization and service through the ownership of individual securities. A broad range of Portfolio Managers and multiple investment styles are available, including equity, fixed income, balanced, international, ETF, REIT and socially responsible portfolios. A minimum account value of \$100,000 is required for MAN.

Item 5 - Fees and Compensation

Written Financial Planning and Financial Consulting Services: The Sterling Group charges a flat fee for Written Financial Planning that generally ranges from \$2,500 to \$7,500. A retainer of fifty-percent of the ultimate financial planning fee is typically collected with the signing of the Service 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.

The Sterling Group charges an hourly fee ranging from \$50 to \$350 per hour for Financial Consulting. A retainer fee is not typically required for our 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-rata annualized basis. 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. Our fees are generally not negotiable. Below is a schedule of the fees for our asset management service:

<u>Assets Under Management</u>	<u>Annual Fee Percentage:</u>
\$0 to \$999,999	1.00 – 1.75 %
\$1,000,000 to \$5,000,000	0.75 – 1.50 %
\$5,000,000 to \$10,000,000	0.65 – 1.00 %
\$10,000,000 to \$20,000,000	0.55 – 0.70 %
Over \$20,000,000	0.45 – 0.55 %

Clients may incur transaction charges for trades executed in their accounts. These transaction fees are separate from our fees and will be disclosed by the firm through which the trades are executed. Clients may also pay the following separately incurred expenses, which we do not receive any part of: charges imposed directly by a mutual fund, index fund, or exchange traded fund, all of which are disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses, such as 12b-1 fees).

Portfolio Management Services (MAS & MAN): Fees are paid quarterly in advance and billed on a pro-rata annualized basis. 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 the advisory fees charged by The Sterling Group, as referenced in the above schedule, the client will be responsible for additional fees charged by the sub-advisors, as well as custody and clearing fees to cover transactions. Annualized fees for participation in these programs vary up to a maximum of 3.00%.

Miscellaneous: Fees will generally be automatically deducted from the client's managed account. In rare cases, 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) LPL Financial, as the custodian, sends quarterly statements showing all disbursements for the client's account, including the amount of the advisory fees paid to The Sterling Group.
- b) The client provides authorization permitting advisory fees to be deducted from their advisory account.
- c) LPL Financial calculates the advisory fees and 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 paragraph (a)(2) of Rule 206(4)-2 under the Investment Advisers Act of 1940. The legend urges the client to compare information provided in their statements with those from the qualified custodian in account opening notices and subsequent statements sent to the client for whom the adviser opens custodial accounts with the qualified custodian.

In non-advisory accounts we can offer securities for a commission because our supervised persons are registered representatives of LPL Financial, member FINRA/SIPC. Our supervised persons 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:

- e) Purchasing securities in a non-advisory account may present 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.
- f) 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 The Sterling Group.

In the event that a client wishes to terminate services with The Sterling Group, we request a written statement from the client stating the instructions 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.

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

We do not charge performance fees to our clients.

Item 7 - Types of Clients and Account Requirements

The Sterling Group services Individuals, High-Net-Worth Individuals, Trusts, Estates and 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 or subject to a minimum account fee of \$6,250.

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 we work to create and implement a customized investment portfolio. To accomplish this, we utilize our investment consulting process, which is designed to help us determine how best to address a client's financial goals and objectives. We examine the many factors that determine our clients' needs, such as financial situation, tax situation, income, investment time horizon, and risk tolerance.

We carefully examine a client's needs and goals and ensure they are assigned an appropriate investment objective. We then choose an appropriate asset allocation to realize the 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' accounts and rebalance as necessary, to ensure that they are aligned with their account objective.

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. With mutual funds or ETFs we look at the underlying assets in an attempt to determine if there is a significant overlap in the underlying investments held in another fund in the client's portfolio. For money managers, we monitor the manager's underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment.

Investing in securities involves risk of loss that clients should be prepared to bear.

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

Advisors of our firm are registered representatives as well as Investment Advisor Representatives ("IAR") with LPL Financial, an SEC registered broker-dealer and FINRA member.

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 set forth in their financial plan through LPL Financial. 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 our firm or LPL Financial.

The Investment Advisor Representatives of The Sterling Group may offer advisory accounts through LPL Financial. 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 with LPL Financial.

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 have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser'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. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to 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 firm and supervised persons must 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. 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.

Item 12 - Brokerage Practices

We seek to recommend a custodian who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, these:

- 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)
- capabilities 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 (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price 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 other clients
- availability of other products and services that benefit us, as discussed below

Our firm has a non-soft-dollar arrangement with LPL Financial and other qualified custodians under which we receive services such as research and administrative functions including portfolio pricing, account statement generation and fee calculations, which 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 LPL Financial or other qualified custodians to our clients is based on our clients' interests in receiving the best execution and the level of competitive, professional services LPL Financial and other qualified custodians provide. We generally do not allow client-directed brokerage, as trades in our clients' accounts are executed through LPL Financial, a qualified custodian and broker-dealer.

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, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially 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.

LPL Financial 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.

Item 13 - Review of Accounts or Financial Plans

Asset Management accounts are reviewed individually on a semi-annual basis. The nature of these reviews is to determine whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc. We provide written reports to clients as requested. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to Asset Management service. Only our Financial Advisors will conduct reviews.

In addition to the semi-annual review conducted at the account level, we regularly review the individual positions held by our clients. We monitor each investment's relative performance versus its peers and relevant benchmarks. We replace individual positions, as necessary, due to performance or market conditions.

Financial Planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to financial planning clients, but are willing to meet with these clients upon their request to discuss updates to their plans, changes in their circumstances, etc.

Item 14 - Client Referrals and Other Compensation

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with relevant state statutes and rules.

We *may* receive from LPL Financial or other qualified custodians or a mutual fund company, without cost and/or at a discount, support services and/or products, to assist us to better monitor and service client accounts maintained at such institutions. We may receive investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by us to assist us in our investment advisory business operations.

Item 15 – Custody

We do not maintain custody of client funds or securities. All of our clients receive at least quarterly account statements directly from their custodians. Upon opening an account with a qualified custodian on a client's behalf, we promptly notify the client in writing of the qualified custodian's contact information. If we decide to also send account statements to clients, such notice and 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

custodians we do business with 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.

Item 16 - Investment Discretion

We accept discretionary authority over the management of client accounts. Our clients must sign a discretionary investment advisory agreement with our firm for the management of such accounts. This type of agreement only applies to our Asset Management clients. We do not take or exercise discretion with respect to our other clients.

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

The Sterling 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. We do not require nor do we solicit prepayment of more than \$500 in fees per client, six months or more in advance. Therefore, we have not included a balance sheet for our most recent fiscal year.