

Item 1 – Cover Page

## **FORM ADV PART 2A**

**Caruso McLean & Co., Inc.**  
**130 Lomond Court**  
**Utica, NY 13502**  
**P: 315-724-5105**  
**F: 315-724-5196**

**[www.carusomclean.com](http://www.carusomclean.com)**

**May 30, 2014**

**This brochure provides information about the qualifications and business practices of Caruso McLean & Co., Inc. If you have any questions about the contents of this Brochure, please contact us at (315) 724-5105 and/or [info@carusomclean.com](mailto:info@carusomclean.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.**

**Additional information about Caruso McLean & Co., Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Any references to Caruso McLean & Co., Inc. as a registered investment adviser or its related persons as registered advisory representatives does not imply a certain level of skill or training.**

<b>Item 2 Material Changes</b>
--------------------------------

May 2014

Item 4 – Updated assets under management as follows.

Previous as of 12/31/2011	\$132 million non-discretionary	\$0 discretionary
Revised as of 12/31/2013	\$183,846,000 non-discretionary	\$20,427,000 discretionary

\*\*\*\*\*

At least annually, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. Additionally, reference to the date of the last annual update to this Brochure will be provided.

The material changes discussed above are only those changes that have been made to this brochure since the firm's last annual update of the brochure. The date of the last annual update of the brochure was May 2014.

In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC 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 fiscal year, which is December 31st. We may further provide other ongoing dis-closure information about material changes as necessary.

Additionally, we will further provide you with a new brochure as necessary based on change or new information, at any time, without charge.

Our brochure may be requested free of charge by contacting Steven Caruso at (315) 724-5105 and/or [info@carusomclean.com](mailto:info@carusomclean.com). Additional information about Caruso McLean & Company, Inc. is also available via the SEC's website [www.adviser.sec.gov](http://www.adviser.sec.gov). The website also provides information about any persons affiliated with Caruso McLean & Company, Inc. who are registered, or are required to be registered, as investment adviser representatives of Caruso McLean & Company, Inc.

Item 3 - **TABLE OF CONTENTS**

Item 1 Cover Page.....	Cover Page
Item 2 Material Changes .....	2
Item 3 - TABLE OF CONTENTS .....	3
Item 4 Advisory Business .....	4
Asset Management Services .....	4
Asset Allocation Consulting Services .....	6
Planning and Consulting Services .....	6
General Information .....	7
Item 5 Fees and Compensation.....	8
Asset Management Services .....	8
Asset Allocation Consulting Services .....	11
Planning and Consulting Services .....	12
General Information .....	12
Item 6 Performance-Based Fees and Side-By-Side Management .....	12
Item 7 Types of Clients .....	12
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss .....	13
Item 9 Disciplinary Information .....	14
Item 10 Other Financial Industry Activities and Affiliations.....	14
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	15
Item 12 Brokerage Practices.....	16
Item 13 Review of Accounts .....	18
Item 14 Client Referrals and Other Compensation.....	18
Item 15 Custody.....	19
Item 16 Investment Discretion .....	19
Item 17 Voting Client Securities .....	19
Item 18 Financial Information .....	20
Brochure Supplements	

<b>Item 4 Advisory Business</b>
---------------------------------

Caruso McLean & Co., Inc. (hereinafter referred to as “Caruso McLean”) is an investment advisory firm offering a variety of advisory services customized to the individual needs of the client. The services are more fully described below.

- A. Caruso McLean & Co., Inc. was founded in 1988 Gregory McLean and Ernest Caruso. Caruso McLean & Co., Inc. is owned by Gregory McLean, President. Stephen Caruso is the designated Chief Compliance Officer. In 1988 Caruso McLean & Co., was registered with the state of New York and in 2005 became solely registered with the Securities and Exchange Commission.
- B. Caruso McLean offers the following advisory services. As previously stated, each of the services is more fully described below.
- Asset Management (wrap and non-wrap program)
  - Asset Allocation Consulting
  - Planning and Consulting Services
    - Financial Planning
    - Retirement Planning
    - College Planning

#### **Asset Management Services**

Upon Caruso McLean completing its analysis of the client’s situation, Caruso McLean will determine an asset allocation customized to the client’s financial goals, objectives and risk tolerance. Caruso McLean has designed five model portfolios which are used as a guideline to manage a client’s account:

- Conservative
- Moderately conservative
- Moderate
- Moderately aggressive
- Aggressive

After evaluating the client’s information gathered by Caruso McLean, Caruso McLean will determine which of its model portfolios would be most suitable for the client. From there, Caruso McLean customizes the client’s portfolio allocation taking into consideration limitations or restrictions of the client, the market and economy at the time and the client’s financial situation, goals and objectives.

Caruso McLean will schedule a meeting with the client and present the recommended portfolio allocation. Upon client’s approval, Caruso McLean will implement the portfolio allocation. Caruso McLean will provide continuous and ongoing management of the client’s account. Caruso McLean will monitor the account and will periodically suggest changes to the allocation as deemed appropriate by Caruso McLean. All changes to the client’s account will be discussed with the client prior to implementation. Only upon the client’s expressed authorization and

agreement will changes be implemented. Client authorization can be verbal, face to face or communicated by electronic methods such as by email.

Clients may grant Caruso McLean discretionary authority to manage their account. By granting discretionary authority to Caruso McLean, client will authorize Caruso McLean to purchase and sell transactions within the clients managed account as deemed appropriate by Caruso McLean without the client's prior authorization. Discretionary authority does not in any way give Caruso McLean the authority to withdraw funds or securities from the account without the client's prior authorization, with the exception of deduction of advisory fees from the client's account. Should the client elect not to grant discretionary authority to Caruso McLean, Caruso McLean will need to obtain the client's prior authorization for any purchase or sale of securities.

Caruso McLean primarily uses open-ended mutual funds and uses no-load and load waived or mutual funds purchased at net asset value (NAV). However, managed accounts are not exclusively limited to mutual funds and may include stocks and bonds which are typically transferred by the client or requested by the client and exchange traded funds (ETFs).

Clients are advised that transactions in the account, account reallocations and rebalancing may trigger a taxable event for the client, with the exception of IRA accounts, 403(b) accounts and other qualified retirement accounts.

### **Vision2020 Wealth Management Platform – Advisor Managed Portfolios Program**

The Wealth Management Platform – Advisor Managed Portfolios Program (“Advisor Managed Portfolios”) provides comprehensive investment management of your assets through the application of asset allocation planning software as well as the provision of execution, clearing and custodial services through Pershing, LLC (“Pershing”).

Advisor Managed Portfolios provides risk tolerance assessment, efficient frontier plotting, fund profiling and performance data, and portfolio optimization and re-balancing tools. Utilizing these tools, and based on your responses to a risk tolerance questionnaire (“Questionnaire”) and discussions that we have together regarding, among other things, investment objective, risk tolerance, investment time horizon, account restrictions, and overall financial situation, we construct a portfolio of investments for you.

Portfolios may consist of mutual funds, exchange traded funds, equities, debt securities, variable life, variable annuity sub-accounts and other investments.

Each portfolio is designed to meet your individual needs, stated goals and objectives. Additionally, you have the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio.

**For further Advisor Managed Portfolios details, please see the Advisor Managed Portfolios Wrap Fee Program Brochure. We provide this brochure to you prior to or concurrent**

**with your enrollment in Advisor Managed Portfolios. Please read it thoroughly before investing.**

### **Asset Allocation Consulting Services**

Clients may engage the services of Caruso McLean for asset allocation recommendations. Caruso McLean will review the client's account and provide the client with an asset allocation recommendation. It will be the client's responsibility to implement the recommendations since Caruso McLean will not have access to the account or trading authority.

Clients are advised recommendations offered by Caruso McLean may be limited by the investment options within the client's account (such as with qualified retirement accounts).

It will be the client's responsibility to provide or authorize the account custodian to send duplicate statements to Caruso McLean. Caruso McLean's recommendations will be based on the information provided to the client. Further, client is advised that delays in implementing the recommendations will affect the performance outcome. Failure for client to provide Caruso McLean with current statements will also affect the performance outcome of the account.

### **Planning and Consulting Services**

Caruso McLean will schedule a meeting with the client and present to the client the analysis of the client's situation and recommendations for steps to be taken to assist the client to work toward financial goals. Caruso McLean planning services will evaluate the client's

- Present and anticipated assets and liabilities
- Insurance needs
- Savings needs
- Investment portfolio
- Anticipated retirement or other employee benefits
- Educational planning
- Retirement planning

Plans are based on the client's financial situation at the time and are based on financial information disclosed by the client to Caruso McLean. Clients are advised that certain assumptions may be made with respect to interest and inflation rates and use of past trends and performance of the market and economy. However, past performance is in no way an indication of future performance. Caruso McLean cannot offer any guarantees or promises that the client's financial goals and objectives will be met. Further, each client must continue to review the plan and update the plan based upon changes in the client's financial situation, goals, or objectives or changes in the economy. Should a client's financial situation or investment goals or objectives change, the client must notify Caruso McLean promptly of the changes. Clients are advised that the advice offered by Caruso McLean may be limited and is not meant to be comprehensive. Therefore, a client may need to seek the services of other professionals such as an insurance adviser, attorney and/or accountant.

Clients are not obligated to implement advice through Caruso McLean or Advisory Representatives. Should client implement the plan with Caruso McLean's Advisory Representatives commissions or other compensation may be received in addition to the advisory fee paid to Caruso McLean.

### **General Information**

Clients are advised the investment recommendations and advice offered by Caruso McLean are not legal advice or accounting advice. Client should coordinate and discuss the impact of financial advice with their attorney and/or accountant. Client is advised that it is necessary to inform Caruso McLean promptly with respect to any changes in the client's financial situation and investment goals and objectives. Failure to notify Caruso McLean of any such changes could result in investment recommendations not meeting the needs of the client.

- C. Caruso McLean tailors the advisory services it offers to the individual needs of the client. A client may impose restrictions and/or limitations on the investing in certain securities or types of securities.

Caruso McLean starts the process by meeting with the client and learning about the client. Caruso McLean may employ the use of a risk tolerance questionnaire to gauge a client's risk tolerance. Clients will be taken through the following process:

1. Face to face meeting to determine synergy between the Advisory Representative and the client and identifying the client's risk and investment objectives.
2. Creation of an investment policy
3. Implementation, management and monitoring

The information gathered by Caruso McLean will assist Caruso McLean to provide client with the requested services and customize the services to the client's financial situation. Depending on the services requested by the client, Caruso McLean will gather various financial information and history from client including, but not limited to:

- Retirement and financial goals
- Investment objectives
- Investment horizon
- Risk tolerance
- Financial needs
- Cash flow needs
- Cost of living needs
- Education needs
- Savings tendencies
- Other applicable financial information required by Caruso McLean in order to provide the investment advisory services requested.

- D. There is no significant difference between how Caruso McLean manages wrap fee accounts and non-wrap fee accounts. However, as stated above, if a client determines to engage Caruso McLean on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody). The services included in a wrap fee agreement will depend upon

each client's particular need. If the client determines to engage Caruso McLean on a non-wrap fee basis the client will select individual services on an unbundled basis, paying for each service separately (i.e. investment advisory, brokerage, custody). **Please Note:** When managing a client's account on a wrap fee basis, Caruso McLean shall receive as payment for its investment advisory services, the balance of the wrap fee after all other costs incorporated into the wrap fee have been deducted.

- E. As of December 31, 2013, we have approximately \$202,273,000 of client assets under our management of which \$20,427,000 is managed on a discretionary basis and \$183,846,000 is managed on a non-discretionary basis.

## Item 5 Fees and Compensation

### Asset Management Services

Fees are negotiable and are not based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds.

Advisory fees will be charged in advance of each calendar quarter. The quarterly advisory fee will be based on the value of the Account on the last business day of the just completed calendar quarter. Fees accounts established or closed during a calendar quarter will be prorated. Therefore, the initial quarterly fee will be a pro-rated portion of the fee based on the number of days remaining in the calendar quarter.

Clients may make additions to the Account or withdrawals from the Account, provided the Account continues to meet minimum account size requirements. Additional assets deposited into the Account after it is opened will be charged a pro-rata fee based upon the number of days remaining in the calendar quarter. Partial withdrawals from the account during a calendar quarter will result in a pro-rated refund or credit of fees issued to the account. No fee adjustments will be made for Account appreciation or depreciation.

Account Size	Annual Fee
\$50,000 to \$500,000	1.80%
\$500,001 to \$1,000,000	1.50%
\$1,000,001 to \$2,500,000	1.25%
\$2,500,001 to \$5,000,000	1.00%
\$5,000,001 and above	0.75%

The fee schedule above may be tiered (client will pay the corresponding fee at each level) or a fixed percentage fee applied to the entire account value. The determination of whether the client's fee will be tiered or a fixed percentage fee is based on the client's preference.



Caruso McLean & Company, Inc.

Example based on a portfolio value of \$3,000,000

Tiered		Flat Percentage Fee
First \$500,00 charged 1.80%	\$9,000	\$3,000,000 x 1% = \$30,000
Next \$1,000,000 charged 1.50%	\$15,000	
Next \$1,000,000 charged 1.25%	\$12,500	
Remaining \$500,000 charged 1.00%	<u>\$5,000</u>	
Annual Fee	\$41,500	

The quarterly fee calculation used to determine the quarterly fee:

Annual fee rate x number of calendar days in the billing period and divide sum by number of calendar days in the year.

Fees are determined based on an aggregated or household value of all of a client's managed accounts.

Caruso McLean may change the above fee schedule upon 30-days prior written notice to the client.

Advisory fees will generally be collected directly from the account, provided the client has given Caruso McLean written authorization. Clients will be provided with a fee notification outlining the fee. Additionally, clients will be provided with account statement reflecting the deduction of the advisory fee direct from the account custodian. In the event the account does not contain a sufficient amount of cash to cover the advisory fee, Caruso McLean may at its discretion sell securities sufficient to cover its advisory fees.

Client may reimburse the account for advisory fees paid to Caruso McLean, except for ERISA and IRA accounts.

In addition to the advisory fees above, client will pay transaction fees for securities transactions executed in client's account in accordance with the custodian's transaction fee schedule. Additionally, client may pay fees for custodial services, account maintenance fees, transaction fees, and other fees associated with maintaining the Account. Such fees are not charged by Caruso McLean and are charged by the product, broker/dealer or account custodian. Caruso McLean does not share in any portion of such fees. Additionally, client may pay their proportionate share of the fund's management and administrative fees and sales charges as well as the mutual fund adviser's fee of any mutual fund they purchase. Such advisory fees are not shared with Caruso McLean and are compensation to the fund-manager. Clients should read the mutual fund prospectus prior to investing.

Accounts may not be established by the deposit of securities or the depositing of additional securities into existing fee based brokerage accounts, which were purchased by the client on a commission basis in the prior twenty-four (24) months through a representative of Caruso Mclean. The purpose of this prohibition is to prevent the client from paying arguably duplicative or extra charges. Clients are advised that they may also not want to open fee based brokerage accounts with the proceeds of the sale of commission securities since the client will then bear the transaction fees on purchases and sales of the commission securities and the fees and charges associated with the fee based brokerage account. Clients will be issued a credit of any commissions earned by a representative of Caruso McLean on assets deposited to the fee based account within the prior two-year period.

Clients are advised Advisory Representatives of Caruso McLean are dually registered representatives of Royal Alliance Associates, Inc. ("Royal Alliance"), a registered broker/dealer, member of the Financial Regulatory Association (FINRA) and SIPC. Advisory Representatives of Caruso McLean who are Registered Representative may receive trail commissions (i.e. 12b-1 fees) for a period of time as a result of directing securities transactions through Royal Alliance. Load and no-load mutual funds may pay annual distribution charges, sometimes referred to as 12b-1 fees. 12b-1 fees come from fund assets, therefore, indirectly from client assets. 12b-1 fees may be initially paid to Royal Alliance and a portion passed to the Advisory Representatives. The receipt of such fees could represent an incentive for the Advisory Representatives to recommend funds with 12b-1 fees over funds that have no fees or lower fees. As a result, there is a potential conflict of interest.

As stated above, Caruso McLean recommends mutual funds that pay 12b-1 fees and no-load funds. Clients have the ability to limit or restrict Caruso McLean from purchasing funds that pay a 12b-1 fee. However, such restriction may impact the performance of the client's account. Further, 12b-1 fees paid on qualified accounts (i.e. IRA, Roth IRA, simple plans, 401k, 403b, etc.) will be credited back to the client's account and a Caruso McLean Advisory Representative will receive no benefit. Finally, Caruso McLean takes into account the Advisory Representative's receipt of 12b-1 fees and reduces its management fee charged to the client when determining the client's fee.

Clients may purchase the securities recommended by Caruso McLean directly or through other brokers or agents not affiliated with Caruso McLean.

#### Termination Provisions

Clients may terminate investment advisory services obtained from Caruso McLean, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with Caruso McLean. Client will be responsible for any fees and charges incurred by client from third parties as a result of maintaining the Account such as transaction fees for any securities transactions executed and Account maintenance or custodial fees. Thereafter, client may terminate advisory services upon written notice to Caruso McLean. Should client terminate investment advisory services during the calendar quarter, client will be issued a pro-rated refund of the advisory fee from the date of termination to the end of the calendar quarter.

#### **Vision2020 Wealth Management Platform – Advisor Managed Portfolios Program**

We offer Advisor Managed Portfolios as an account where no separate transactions charges apply and a single fee is paid for all advisory services and transactions ("Wrap Account").

You will pay a quarterly account fee, in advance, based upon the market value of the assets held in your account as of the last business day of the preceding calendar quarter. Your account fees are negotiable and will be debited from your account by our custodian. If you terminate your account, the account fee will be credited back to you on a pro-rata basis for the unused portion of the quarter.

Additional, ancillary fees may apply. Please see the Advisor Managed Portfolios Wrap Fee Program Brochure for further details.

Our Advisor Managed Portfolios account fee schedule is as follows:

Account Size	Annual Fee
\$50,000 to \$500,000	1.80%
\$500,001 to \$1,000,000	1.50%
\$1,000,001 to \$2,500,000	1.25%
\$2,500,001 to \$5,000,000	1.00%
\$5,000,001 and above	0.75%

**For further Advisor Managed Portfolios details, please see the Advisor Managed Portfolios Wrap Fee Program Brochure. We provide this brochure to you prior to or concurrent with your enrollment in Advisor Managed Portfolios. Please read it thoroughly before investing.”**

### **Asset Allocation Consulting Services**

Advisory fees will be charged in advance of each calendar quarter. Fees are negotiable. The quarterly advisory fee will be based on the value of the Account on the last business day of the just completed calendar quarter as reflected on the account statement provided by the client. Fees accounts established or closed during a calendar quarter will be prorated. Therefore, the initial quarterly fee will be a pro-rated portion of the fee based on the number of days remaining in the calendar quarter.

No fee adjustments are made for contributions to the account or withdrawals from the account. Client will pay a discounted fee based on the fee schedule below. Client may authorize Caruso McLean to deduct the fee from another account under management with Caruso McLean. Assets under the Asset Allocation Consulting Service will be aggregated or household with managed assets to determine the fee.

Account Size	Annual Fee
\$50,000 to \$500,000	1.80%
\$500,001 to \$1,000,000	1.50%
\$1,000,001 to \$2,500,000	1.25%
\$2,500,001 to \$5,000,000	1.00%
\$5,000,001 and above	0.75%

### **Termination Provisions**

Clients may terminate services, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with Caruso McLean. Client will be responsible for any fees and charges incurred by client from third parties as a result of maintaining the Account such as transaction fees for any securities transactions executed and Account maintenance or custodial fees. Thereafter, client may terminate advisory services upon written notice to Caruso McLean. Should client terminate investment advisory services during the calendar quarter, client will be issued a pro-rated refund of the advisory fee from the date of termination to the end of the calendar quarter.

## Planning and Consulting Services

Client is advised fees for planning services are strictly for planning services. Therefore, client may pay fees and/or commissions for additional services obtained such as asset management or products purchased such as securities or insurance.

Fees are negotiable. Fees for planning services are based on the investable assets of the client and are based on the fee schedule below.

Investable Assets	Fee
Up to \$100,000	\$500
\$100,001 to \$500,000	\$1,000
\$500,001 to \$1,000,000	\$2,000
\$1,000,000 and above	\$4,000

### Termination Provisions

Clients may terminate services obtained from Caruso McLean, without penalty, upon written notice within five (5) business days after entering into the advisory agreement with Caruso McLean. Thereafter, client may terminate investment advisory services upon Caruso McLean's receipt of client's written notice. Refunds will be determined and calculated based on the time and effort expended by Caruso McLean prior to termination.

## General Information

The revenue received by Advisory Representatives of Caruso McLean consists of approximately 50% from advisory fee charged through Caruso McLean and 50% commission income from the sale of securities and insurance products including ongoing trail compensation.

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

This section is not applicable to Caruso McLean since Caruso McLean does not charge performance based fees to clients.

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

Caruso McLean's services are geared toward individuals both high net worth (i.e. clients with a net worth of \$2,000,000) and other than high net worth. Additionally, Caruso McLean works with trusts, pension and profit sharing plans, charitable organizations, and corporations and other business entities.

Caruso McLean generally requires a minimum amount of assets be deposited to an account for the purpose of obtaining asset management services. Caruso McLean will generally require clients to deposit a minimum of \$50,000 (cash or securities) per account. However, under certain circumstances,

Caruso McLean may waive the minimum account size requirement and accept accounts less than \$50,000. Such circumstances may include but not be limited to additional assets will soon be deposited or client has other accounts under management with Caruso McLean. Clients are advised that performance may suffer due to difficulties with diversifying smaller accounts and due to risk controls potentially being compromised. Performance of smaller accounts may vary from the performance of accounts with more dollars invested due to fluctuations in the market may affect smaller accounts more and the effects of compounding may be greater in larger accounts.

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

Caruso McLean conducts economic analysis and attempts to analyze and determine the trends. Additionally, Caruso McLean conducts fundamental analysis. Fundamental analysis generally involves assessing a company's or security's value based on factors such as sales, assets, markets, management, products and services, earnings, and financial structure.

Caruso McLean will conduct technical market analysis and technical trend following. Technical analysis generally involves studying trends and movements in a security's price, trading volume, and other market-related factors in an attempt to discern patterns.

Caruso McLean researches the securities it recommends by reviewing research reports and analysis made available through various vendors. Caruso McLean will analyze performance of the securities in over a period of time and in various market conditions. Additionally, Caruso McLean will conduct computerized and/or other models for asset allocations and analyze the performance based on past performance and risk attributes.

For the management of clients' accounts Caruso McLean uses modern portfolio theory. Modern portfolio theory (MPT) is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. MPT is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. Depending on the client, Caruso McLean's management strategy employs the use of active management (i.e. frequent trading) and passive management (trading is infrequent and will more often be maintaining the allocation).

Caruso McLean does not represent, warrant or imply that the services or methods of analysis used by Caruso McLean can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to major market corrections or crashes. Past performance is no indication of future performance. No guarantees can be offered that client's goals or objectives will be achieved. Further, no promises or assumptions can be made that the advisory services offered by Caruso McLean will provide a better return than other investment strategies.

As stated above, Caruso McLean primarily uses mutual funds and exchange traded funds (ETFs). The risks with mutual funds include the costs and expenses within the fund that can impact performance, change of managers, and fund straying from its objective. Open ended mutual funds do not typically have a liquidity issue and the price does not fluctuate throughout the trading day. The risks with ETFs

are the ETFs are more affected by the market and prices fluctuate throughout the day. Additionally, Caruso McLean may use individual fixed income securities and common and preferred stocks in portfolios.

#### **Item 9 Disciplinary Information**

There is no reportable disciplinary information required for Caruso McLean or its advisory representative.

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

As previously stated, Advisory Representatives are dually registered as advisory representatives of Caruso McLean and as a registered representative of Royal Alliance. Clients are under no obligation to purchase or sell securities through the Advisory Representatives. However, if they choose to implement the plan, commissions may be earned in addition to any fees paid for advisory services. Commissions may be higher or lower at Royal Alliance than at other broker/dealers. Advisory Representatives may have a conflict of interest in having clients purchase securities and/or insurance related products through Royal Alliance in that the higher their production with Royal Alliance the greater potential for obtaining a higher pay-out on commissions earned. Advisory Representatives spend approximately 25% of their time offering securities products on a commission basis.

Under the rules and regulations of the FINRA, Royal Alliance has an obligation to perform certain supervisory functions regarding certain activities engaged in by advisory representatives who are also registered representatives of Royal Alliance. For such supervisory functions, Caruso McLean may pay Royal Alliance a portion of the advisory fees they receive. Royal Alliance and Caruso McLean are not affiliated.

Additionally, Royal Alliance will collect, as paying agent for Caruso McLean, investment advisory fees and will retain a portion as a charge to Caruso McLean (not the client) for supervisory functions. This fee will not increase execution or brokerage charges to clients or the fee clients pay Caruso McLean.

Additionally, Royal Alliance Associates, Inc. is a registered investment adviser and offers various advisory programs. Advisory Representatives may offer advisory programs through Royal Alliance. If a recommendation is made to a client to participate in an advisory program through Royal Alliance, the Advisory Representative will receive a portion of the advisory fee. Additionally, clients will be provided with the disclosure brochures associated with the programs. Clients are under no obligation to participate in any service or product offered through Royal Alliance.

Advisory Representatives are licensed with various insurance companies. Commissions will be earned if the insurance products are purchased through them. Clients are under no obligation to purchase insurance products or services through them. Advisory Representatives spend approximately 5% of their time offering insurance products. While the insurance business is not a significant business for Advisory Representative and they do not concentrate resources toward the business, because of the

conflict of interest in having a client purchase insurance products through them, this disclosure is provided to clients.

Caruso McLean attempts to mitigate the conflicts of interest with the potential receipt of commissions if recommendations are implemented by providing clients with these disclosures. Further, clients are encouraged to consult other professionals and may implement recommendations through other financial professionals. Furthermore, as a registered representative with Royal Alliance, Advisory Representatives are subject to a supervisory structure at Royal Alliance for their securities business.

<b>Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</b>
--

Caruso McLean and its associated persons may buy or sell securities identical to those securities recommended to clients. Therefore, Caruso McLean and/or its associated persons may have an interest or position in certain securities that are also recommended and bought or sold to clients. Caruso McLean and its associated persons will not put their interests before a client's interest. Caruso McLean and its associated persons may not trade ahead of clients or trade in such a way to obtain a better price for themselves than for clients.

Caruso McLean is required to maintain a list of all securities holdings for its associated persons and develop procedures to supervise the trading activities of associated persons who have knowledge of client transactions and their related family accounts at least quarterly. Further, associated persons are prohibited from trading on non-public information or sharing such information.

Clients have the right to decline any investment recommendation. Caruso McLean and its associated persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

SunAmerica Trust Company, an affiliate of Royal Alliance, or another affiliate of SunAmerica may act as custodian and receive compensation in connection with certain third party advisory programs. Therefore, if clients maintain their accounts at SunAmerica, SunAmerica will benefit.

Caruso McLean may, from time to time, recommend to client's investment products, including mutual funds, variable and fixed annuities, and other insurance products sponsored by SunAmerica or AIG affiliates. Such recommendations might be deemed to create a conflict of interest because they may result in an increase on compensation for Royal Alliance affiliates.

### **Code Of Ethics**

Caruso McLean has a fiduciary duty to clients to act in the best interest of the client and always place the client's interests first and foremost. Caruso McLean takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations as well as Caruso McLean's policies and procedures. Further, Caruso McLean strives to handle clients' non-public information in such a way to protect information from falling into hands that have no business reason to know such information and provides clients with Caruso McLean's Privacy Policy. As such, Caruso McLean maintains a code of ethics for its Advisory Representatives, supervised persons and

staff. The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations reporting requirements, and safeguarding of material non-public information about client transactions. Further, Caruso McLean's Code of Ethics establishes Caruso McLean's expectation for business conduct. A copy of our Code of Ethics will be provided to any client or prospective client upon request.

## **Item 12 Brokerage Practices**

As previously stated, Advisory Representatives are registered representative of Royal Alliance. As a result they are subject to FINRA Conduct Rule 3040 which may restrict them from conducting securities transactions away from Royal Alliance unless Royal Alliance provides them with written authorization.

In limited situations a client may maintain assets with another broker/dealer or custodian and establish a delivery verses payment account Royal Alliance and the custodian. A delivery verses payment account is a settlement procedure in which a client instructs that he will make immediate payment upon delivery of the purchased security. Also called cash on delivery. Transactions will be directed and executed through Royal Alliance and the security delivered to the client directed custodian. Delivery verses payment arrangements may cost the client more than if the client maintained the assets through Royal Alliance since there is a cost associated with the service. Further, account maintenance fees may be higher or lower at the client directed custodian.

Caruso McLean is independently owned and operated and not affiliated with Royal Alliance.

Clients are advised that not all investment advisers require clients to maintain accounts at a specific broker/dealer. Caruso McLean's clients are advised they may maintain accounts at another broker/dealer. However, the services provided by Caruso McLean will be limited to only advice and will not include implementation. Clients who select another brokerage firm for custodial and/or brokerage services will not be able to receive asset management services from Caruso McLean. However, to the extent transactions can be conducted via delivery verses payment, Caruso McLean can provide asset management services. Accounts maintained at another broker/dealer can only participate in Caruso McLean's asset allocation consulting services described above.

In initially selecting Royal Alliance, Gregory McLean conducted due diligence. His evaluation and criteria included ability to service clients, staying power as a company, industry reputation, ability to report to clients and to him, trading platform, products and services available, technology resources, and educational resources.

Periodically, Caruso McLean will review alternative broker/dealers and custodians in the marketplace to ensure Royal Alliance and its custodians are meeting Caruso McLean's duty to provide best execution for client accounts. The review will include a comparison to Royal Alliance including evaluating criteria such as overall expertise, cost competitiveness and financial condition. The quality of execution by Royal Alliance will be reviewed through trade journal evaluations. However, best execution does not simply mean the lowest transaction cost. Therefore, no single criteria will validate



nor invalidate a custodian, but rather, all criteria taken together will be used in evaluating the currently utilized custodian.

Additionally, product sponsors such as variable and investment companies and limited partnerships which are recommended to clients may provide support to Caruso McLean and its related persons. Such support includes research, educational information, and monetary support for due diligence trips and client events.

Clients are advised there is an incentive for Caruso McLean and its Advisory Representatives to recommend a broker/dealer over another based on the products and services that will be received rather than the client's best interest.

Royal Alliance has a wide range of approved securities products for which Royal Alliance performs due diligence prior to selection. Royal Alliance's registered representatives are required to adhere to these products when implementing securities transactions through Royal Alliance. Commissions charged for these products may be higher or lower than commissions clients may be able to obtain if transactions were implemented through another broker/dealer. Royal Alliance also provides Advisory Representative, and therefore the Caruso McLean, with back-office operational, technology, and other administrative support. Other services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. Such services are intended to help Advisory Representatives and Caruso McLean manage and further develop its business enterprise.

Royal Alliance and its clearing broker/dealer, Pershing, LLC also make available to Caruso McLean other products and services that benefit Caruso McLean but may not directly benefit its clients' accounts. Some of these other products and services assist Caruso McLean with managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmation and account statements); facilitate trade execution; provide research, pricing information and other market data; facilitate payment of Caruso McLean's fees from its clients' accounts; and assist with back-office functions; recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Caruso McLean's accounts, including accounts not held through Royal Alliance.

Advisory Representatives of Caruso McLean who are Registered Representative may receive trail commissions (i.e. 12b-1 fees) for a period of time as a result of directing securities transactions through Royal Alliance. Load and no-load mutual funds may pay annual distribution charges, sometimes referred to as 12b-1 fees. 12b-1 fees come from fund assets, therefore, indirectly from client assets. 12b-1 fees may be initially paid to Royal Alliance and a portion passed to the Advisory Representatives. The receipt of such fees could represent an incentive for the Advisory Representatives to recommend funds with 12b-1 fees over funds that have no fees or lower fees. As a result, there is a potential conflict of interest.

Clients have the ability to limit or restrict Caruso McLean from purchasing funds that pay a 12b-1 fee. However, such restriction may impact the performance of the client's account. Further, 12b-1 fees paid on qualified accounts (i.e. IRA, Roth IRA, simple plans, 401k, 403b, etc.) will be credited back to the client's account and a Caruso McLean Advisory Representative will receive no benefit. Finally,

Caruso McLean takes into account the Advisory Representative's receipt of 12b-1 fees and reduces its management fee charged to the client when determining the client's fee.

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

Clients participating in the Asset Management Services will have reviews not less than at least annually or as agreed by client and Advisory Representative. Clients may request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. Advisory Representatives will monitor for changes or shifts in the economy, changes to the management and structure of a mutual fund or company in which client assets are invested, and market shifts and corrections.

Clients are advised that they must notify their Advisory Representative promptly of any changes to the client's financial goals, objectives or financial situation as such changes may require him review the portfolio allocation and make recommendations for changes.

The following individuals participate in the review of client accounts:

Gregory McLean, President  
Stephen Caruso, Chief Compliance Officer,  
Lori Glennon, Advisory Representative

Clients will be provided statements at least quarterly direct from the account custodian. Additionally, clients will receive confirmations of all transactions occurring direct from the account custodian. Caruso McLean does not regularly provide reports to clients.

Clients participating in Financial, Retirement and College Planning Services will not receive regular reviews. Caruso McLean recommends clients have at least an annual review and update to any plans. However, the time and frequency of the reviews are solely up to the client. Additionally, client will be charged review fees based on the fee schedule disclosed under the program. Other than the initial plan or analysis, there will be no other reports issued.

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

As referenced above, Advisory Representatives of Caruso McLean who are Registered Representative may receive trail commissions (i.e. 12b-1 fees) for a period of time as a result of directing securities transactions through Royal Alliance.

Product vendors recommended by Caruso McLean may provide monetary and non-monetary assistance with client events, provide educational tools and resources. Caruso McLean does not select products as a result of any monetary or non-monetary assistance. The selection of product is first and foremost. Caruso McLean's due diligence of a product does not take into consideration any assistance it may receive. Therefore, this is not considered a conflict of interest but a benefit for the client and Caruso McLean.

Caruso McLean does not compensate any person or entity for referring business to Caruso McLean.

#### **Item 15 Custody**

With the exception of deduction of Caruso McLean's advisory fees from your accounts, Caruso McLean does not take custody of your funds or securities. Clients will receive account statements direct from the broker/dealer or account custodian reflecting the deduction of Caruso McLean's advisory fee. Clients should carefully review statements received by the broker/dealer or account custodian. Further, clients should compare any written report received from Caruso McLean with statements received direct from the broker/dealer or account custodian. Should there be any discrepancy the account custodian's report will prevail.

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct your account custodian to deduct our advisory fees directly from your account or if you grant us authority to move your money to another person's account. Your account custodian maintains actual custody of your assets. You will receive account statements directly from your account custodian at least quarterly. They will be sent to the email or postal mailing address you provided. You should carefully review those statements promptly when you receive them

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

Clients may grant Caruso McLean authorization to manage client's account on a discretionary basis. Discretionary authorization provides Caruso McLean the ability to determine the securities to be purchased and sold and when such securities are purchased and sold. Client will grant such authority to Caruso McLean by execution of the client agreement or other discretionary authorization form (i.e. power of attorney). Client may terminate discretionary authorization at any time upon receipt of written notice by Caruso McLean. Discretionary authority will be limited to purchases and sales of securities within the clients managed account.

Additionally, client is advised that:

- 1) Client may set parameters with respect to when account should be rebalanced and set trading restrictions or limitations;
- 2) Advisory Representative must obtain written client consent to establish any mutual fund, variable annuity, or brokerage account;
- 3) With the exception of deduction of Adviser's advisory fees from the account, if client has authorized automatic deductions, Adviser will not have the ability to withdraw client's funds or securities from the account.
- 4) Discretionary authority is limited to managed accounts on a fee basis.

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

Caruso McLean does not vote your securities. Unless you suppress proxies, securities proxies will be sent directly to you by the account custodian or transfer agent. You may contact Caruso McLean

about questions you may have an opinions on how to vote the proxies. However, the voting and how you vote the proxies is solely your decision.

<b>Item 18 Financial Information</b>
--------------------------------------

Caruso McLean will not require clients to prepay more than \$1,200 and six or more months in advance of receiving the advisory service.