

**Caton Financial, Inc.**

**2350 Kerner Boulevard, Suite 370  
San Rafael, California 94901**

**Telephone: (415) 461-6248  
Fax: (415) 461-3748**

**October 13, 2011**

**FORM ADV PART 2A  
BROCHURE**

**This brochure provides information about the qualifications and business practices of Caton Financial, Inc. If you have any questions about the contents of this brochure, please contact us at (415) 461-6248. 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 Caton Financial, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Caton Financial, Inc. is 128101.**

**Caton Financial, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

## ***Material Changes***

*Form ADV Part 2A, Item 2*

This brochure is a new document prepared according to new regulatory requirements. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

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## Advisory Business

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### **Description of Services and Fees**

Caton Financial, Inc. is a registered investment adviser based in San Rafael, California. We were organized as a corporation under the laws of the State of California in 2007. Nancy K. Caton, President, is the company's sole owner. Prior to 2007, Ms. Caton operated as a sole proprietor registered investment adviser and has been providing investment advisory services since 1987.

As used in this brochure, the words "we," "our" and "us" refer to Caton Financial, Inc. and the words "you," "your" and "client" refer to you as either a client or prospective client of our firm. In addition, you may see the term Associated Person throughout this brochure. As used in this brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs.

### **Financial Planning Services**

We offer broad-based, modular, and consultative financial planning services. Financial planning will typically involve providing a variety of advisory services to you regarding the management of your financial resources based upon an analysis of your individual needs. If you retain our firm for these services, we will meet with you to gather information about your financial circumstances and objectives. Once we specify those long-term objectives (both financial and non-financial), we will develop shorter-term, targeted objectives. Once we review and analyze the information you provide to us we will deliver a written plan to you, designed to help you achieve your stated financial goals and objectives.

You are under no obligation to act on our financial planning recommendations. Should you choose to act on any of our recommendations, you are not obligated to implement the financial plan through any of our other investment advisory services. Moreover, you may act on our recommendations by placing securities transactions with any brokerage firm. You may elect to have us prepare a financial plan for a set fee and then manage your assets under one of the asset management programs described below. If you choose to implement the plan through us, we may waive or offset a portion of the planning fees. The scope of the financial planning services and on-going relationship will determine the extent of the fee offset or waiver.

Financial plans are based on your financial situation at the time we prepare the plan, and on the financial information you provide. You must promptly notify us if your financial situation, goals, objectives, or needs change.

You may only require advice on a single aspect of the management of your financial resources; therefore, we offer financial plans and/or general consulting services in a format that addresses only those specific areas of interest or concern, depending on your unique circumstances.

When the scope of the financial planning and/or consulting services has been agreed upon, a determination will be made as to applicable fee. The final fee, subject to negotiation, is directly dependent upon the facts and circumstances of your financial situation and the complexity of the financial plan or service(s) requested. The Firms Planning and Consulting fees are generally based on the following fee schedule:

<b>Initial Consultation</b>	<b>No Charge</b>
Subsequent Consultations	\$200/Hour
Research and Analysis	\$100/Hour
Written Financial Plans	\$1000 - \$5000*

\*The cost of a written financial plan depends on the complexity of the plan and the availability of good data. The fees charged include the cost of reviewing the data, analyzing the data, and preparing a written plan, as well as up to one hour of meeting time with you to review the plan.

Generally, we require that you pay financial planning and consulting fees in arrears upon completion of the contracted services. However, in special circumstances, other fee-paying arrangements may be negotiated. In either case, the services to be provided, the applicable fee, and the fee paying arrangements are agreed upon in advance of services rendered, and will be clearly set forth in the executed financial planning agreement. Under no circumstances will we collect fees six months in advance and in excess of \$1,200.

You may terminate the financial planning agreement by providing written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the agreement.

### **Passport Program**

The Passport Account ("Passport") is an investment advisory account, administered by Raymond James and Associates, Inc. ("RJA"), which offers you, on a non-discretionary basis (or discretionary, provided certain qualifications are met), the ability to pay an advisory fee on the assets in your account and a nominal transaction charge in lieu of a commission for each transaction. These services are offered nationwide in all fifty states, the District of Columbia and Puerto Rico.

If you enter into non-discretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account. If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign at the time you engage us to manage your account(s).

There is a minimum investment of \$25,000 for Passport Accounts, although smaller accounts may be accepted based upon the specific circumstances of an account. The advisory fees for Passport Accounts are as follows:

We charge a negotiable, annualized fee ranging from 1.25% to 1% of assets under management for accounts up to \$1,000,000. For account size over \$1,000,000 fees are negotiable.

The annual asset-based fee is paid quarterly in advance. When an account is opened, the asset-based fee is billed for the remainder of the current billing period and is based on the initial contribution. Thereafter, the quarterly asset-based fee is paid in advance, is based on the account asset value on the last business day of the previous calendar quarter, and becomes due the following business day. You authorize and direct RJA as Custodian to deduct asset-based fees from your account; you further authorize and direct the Custodian to send a quarterly statement to you, which shows all amounts disbursed from your account, including advisor fees paid to us. The brokerage statement will show the amount of the asset-based fee, the value of the assets on which the fee was based, and the specific manner in which the fee was calculated.

Additionally, there is a nominal Processing Fee for the execution of each trade, as follows:

<u>SECURITY TYPE</u>	<u>PROCESSING FEE</u>
Exchange Traded Equities: Listed and OTC	\$30
Closed End Mutual Funds	\$30
Exchange Traded Funds	\$30
Mutual Funds	\$30
Real Estate Investment Trusts/Unit Investment Trusts	\$30
Preferred Stocks	\$50
Options Contracts	\$50
Bonds	\$50

In addition to the foregoing transaction charge, you will incur a charge in the amount of \$4.95 per transaction for handling and postage charges. You may also incur charges for other account services provided by RJA not directly related to the execution and clearing of transactions including, but not limited to, IRA custodial fees, safekeeping fees, interest charges on margin loans, and fees for legal or courtesy transfers of securities.

The Client Agreement may be terminated by you or us at any time upon providing notice pursuant to the provisions of Client Agreement. In the event of termination of this Agreement, we will refund to you the prorated portion of the fee for the quarter of termination.

### **Investment of Cash Reserves**

With respect to cash reserves of advisory client accounts, the custodian of the account assets will determine where cash reserves are held. The custodian may offer one or multiple options to different account types (such as non-taxable and managed accounts). In addition, the custodian may, among other things, consider terms and conditions, risks and features, conflicts of interest, current interest rates, the manner by which future interest rates will be determined, and the nature and extent of insurance coverage (such as deposit protection from the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation). The custodian may change an investment option at any time by providing you with thirty (30) days advance written notice of such change, modification or amendment. As of July 2010, Cash Sweep Options include the Raymond James Bank Deposit Program ("RJBDP"), the Client Interest Program ("CIP") sponsored by Raymond James, and a proprietary class of money market funds (the "Eagle Class - JP Morgan Money Market Funds") of the JP Morgan Prime Money Market Fund and JP Morgan Tax Free Money Market Fund, managed by J.P. Morgan Investment Management, Inc. offered by Eagle Asset Management, Inc. ("Eagle," an affiliate of Raymond James). If you select the RJBDP option, you are responsible for monitoring the total amount of deposits held at each Bank in order to determine the extent of FDIC insurance coverage available. Raymond James is not responsible for any insured or uninsured portion of your deposits at any of the Banks.

Raymond James Bank (also an affiliate of Raymond James), and the interest rate it offers may differ from the yield on the Eagle Class - J.P. Morgan Money Market Funds and CIP, but Raymond James Bank generally earns more than the interest it pays on such balances. The Eagle Class - JP Morgan Money Market Funds are offered by Eagle through an agreement with J.P. Morgan. Under the agreement, Eagle, Eagle Fund Services, Inc. and Eagle Fund Distributors, Inc., (together, the "Eagle Affiliates") and Raymond James and its affiliate Raymond James Financial Services, Inc. are compensated by the Eagle Class - JP Morgan Money Market Funds and J.P. Morgan for, among other things, distribution costs, shareholder record-keeping activities, and the coordination and administration of the funds.

Raymond James generally earns a higher rate of interest on CIP balances than the interest rate it pays on such balances. The income earned by the Eagle Affiliates and Raymond James is in addition to the asset-based fees that Raymond James receives from these accounts.

Where an unaffiliated third party acts as custodian of account assets, you and/or the custodian will determine where cash reserves are held.

Cash balances arising from the sale of securities, redemptions of debt securities, dividend and interest payments and funds received from customers are transferred automatically on a daily basis to the client's cash sweep account. When securities are sold, funds are deposited on the day after settlement date. Funds placed in your account by personal check usually will not be transferred to the sweep account until the second business day following the day that the deposit is credited to your investment account. Due to the foregoing practices, Raymond James may obtain federal funds prior to the date that deposits are credited to your investment account and thus may realize some benefit because of the delay in transferring such funds to their interest-bearing cash sweep account.

For further information, please refer to "The Raymond James Cash Sweep Programs" brochure, a copy of which is available from your financial advisor, or you may visit the Raymond James public website: [http://www.raymondjames.com/cash\\_sweep.htm](http://www.raymondjames.com/cash_sweep.htm).

### **Cash Rule Conflict**

Participants in the Passport program with cash or money market investments, which exceed 20% of the total market value of client's account at the time of billing, will be included for fee purposes only if the account did not exceed 20% in cash or money market investments at the end of the previous quarter. Otherwise, the balance in excess of 20% will not be included in the value of your account for fee purposes. This fee billing provision is

intended to equitably assess advisory fees to your assets for which an ongoing advisory service is being provided, and the exclusion of excess cash from the advisory fee is intended to benefit your holding substantial cash balances (as a percentage of the total individual account value) for an extended period of time. However, this provision may pose a financial disincentive to an Advisory Representative, as the portion of cash or money market investments will not be included in the asset-based fee charged to the account. This may cause an Advisory Representative to reallocate your account from cash or money market investments to advisory fee eligible investments in order to avoid the application of this provision and therefore receive a fee on the full asset value in your account(s).

For non-IRA/ERISA Passport accounts, the client's Investment Advisory Representative may elect to absorb all or a portion of the Processing Fee. Certain open-end mutual funds, which may be acquired by you, may, in addition to assessing management fees, internally assess a distribution fee pursuant to section 12(b)-1 of the Investment Company Act of 1940, or an administrative or service fee ("trail"). Such fees are included in the calculation of operating expenses of a mutual fund and are disclosed in the fund prospectus. However, if the Advisory Representative elects to absorb the Processing Fees in non-IRA/ERISA accounts, they may also elect to receive trails paid by the fund company, if any, to defray the cost of the Processing Fees they absorb. If such an election is made, there may be a conflict of interest where the Advisory Representative may have an incentive to absorb all of the Processing Fees in consideration of the actual or anticipated trails they will receive.

You should understand that the annual advisory fees charged in the Passport program are in addition to the management fees and operating expenses charged by open-end, closed-end and exchange-traded funds. To the extent that you intend to hold fund shares for an extended period of time, it may be more economical for you to purchase fund shares outside of these programs. You may be able to purchase mutual funds directly from their respective fund families without incurring Caton Financial, Inc.'s advisory fee. When purchasing directly from fund families, you may incur a front- or back-end sales charge.

You should also understand that the shares of certain mutual funds offered in these programs may impose short-term trading charges (typically 1%-2% of the amount originally invested) for redemptions generally made within short periods of time. These short-term charges are imposed by the funds (and not Caton Financial, Inc.) to deter "market timers" who trade actively in fund shares. You should consider these short-term trading charges when selecting the program and/or mutual funds in which they invest. These charges, as well as operating expenses and management fees, which may increase the overall cost to you by 1%-2% (or more), are available in each fund's prospectus.

You should also understand that certain no-load variable annuities may be offered in the Passport program and may be charged an advisory fee. The annual advisory fees charged for these no-load variable annuities are in addition to the management fees and operating expenses charged by the insurance companies offering these products.

You should also understand that more sophisticated investments such as short sells and margins may be offered in the Passport programs. Fees for advice and execution on these securities are based on the total asset value of the account. While a negative amount may show on your statement for the margined security as the result of a lower net market value, the amount of the fee is based on the absolute market value. This could create a conflict of interest where an Advisory Representative may have an incentive to encourage the use of margin to create a higher market value and therefore receive a higher fee. The use of margin may also result in interest charges in addition to all other fees and expenses associated with the security involved.

Your total cost of each of the services provided through these programs, if purchased separately, could be more or less than the costs of each respective program. Cost factors may include your ability to:

- 1) obtain the services provided within the programs separately with respect to the selection of mutual funds,
- 2) invest and rebalance the selected mutual funds without the payment of a sales charge, and
- 3) obtain performance reporting comparable to those provided within each program.

When making cost comparisons, you should be aware that the combination of multiple mutual fund

investments, advisory services, custodial and brokerage services available through each program may not be available separately or may require multiple accounts, documentation, and fees. If an account is actively traded or you may not otherwise qualify for reduced sales charges for fund purchases, the fees may be less expensive than separately paying the sales charges and advisory fees. If an account is not actively traded or you would otherwise qualify for reduced sales charges, the fees in these programs may be more expensive than if utilized separately.

Your Advisory Representative may have a financial incentive to recommend a fee-based advisory program rather than paying for investment advisory services, brokerage, performance reporting and other services separately. A portion of the annual advisory fee is paid to your Advisory Representative, which may be more than the Advisory Representative would receive under an alternative program offering or if you paid for these services separately. Therefore, Your Advisory Representative may have a financial incentive to recommend a particular account program over another. Advisory Representatives do not receive a financial incentive to recommend and sell proprietary mutual funds versus non-proprietary funds. However, because compensation structures vary by product type, Advisory Representatives may receive higher compensation for certain product types. In addition, your Advisory Representative may receive incentive compensation for utilizing a particular account program.

Caton Financial, Inc. believes the charges and fees offered within each fee-based program are competitive with alternative programs available through other firms and/or investment sources, yet makes no guarantee that the aggregate cost of a particular program is lower than that, which may be available elsewhere.

If you terminate the advisory agreement(s) within the first five (5) business days of entering into the advisory agreement, you will be refunded any advisory fees that were charged.

All above quoted fees may be negotiated within the stated fee schedule; however, certain circumstances may dictate an exception from the set range.

#### ***Raymond James Consulting Services (RJCS)***

For separately managed accounts, we use Raymond James Consulting Services (RJCS) as a sub-advisor in recommending, selecting, and monitoring one or more affiliated or unaffiliated sub-advisors with which RJCS has entered into a sub-advisory agreement. RJCS is a division of Raymond James and Associates, Inc. (RJA), a registered investment adviser, and offers a bundled asset- based fee schedule.

We select the appropriate portfolio manager(s) on the RJCS platform, based upon your financial needs and investment objectives. RJCS also establishes custodial facilities, monitors performance of portfolio managers, provides you with performance accounting and other administrative services, and assists portfolio managers with certain trading activities.

Annual fees are as follows:

#### **Equity and Balanced Accounts:**

##### **Management Fees**

First \$500,000	0.80%
Next \$500,000	0.70
Assets Over \$1,000,000	0.65

##### **Administrative Fees**

First \$200,000	0.15%
Next \$1,800,000	0.10
Assets Over \$2,000,000	0.05

##### **Clearing Fees**

First \$200,000	0.25%
Next \$300,000	0.15
Next \$500,000	0.10
Assets Over \$1,000,000	0.05



**Fixed Income:****Management Fees**

First \$500,000	0.50%
Next \$1,500,000	0.40
Next \$8,000,000	0.35
Assets Over \$10,000,000	0.30

**Administrative Fees**

First \$200,000	0.15%
Next \$1,800,000	0.10
Assets Over \$2,000,000	0.05

**Clearing Fees**

First \$200,000	0.15%
Next \$300,000	0.10
Assets Over \$500,000	0.05

The management fee is paid to us as the investment advisor, RJCS as the sub-advisor, and the underlying portfolio manager. The administrative and clearing fees are paid to RJA, as broker. As an alternative to the administrative and clearing fees, you may pay a commission to RJFS, as broker. You may also incur charges for other account services provided by RJA not directly related to the execution and clearing of transactions including, but not limited to, IRA custodial fees, safekeeping fees, and fees for legal or courtesy transfers of securities.

RJA negotiates with portfolio manager the management fee payable to portfolio manager, based on factors including, but not limited to, the portfolio manager's assets under management in the RJCS program, average number of portfolio holdings, average annual turnover, anticipated sales and administrative service levels, among others. The fee payable to portfolio managers is typically 0.40% – 0.50% for equity and balanced accounts, and 0.25% - 0.30% for fixed income accounts, but may be lower due to incremental rate negotiation. Although the basis of RJCS' recommendation of portfolio manager is not based on this negotiated management fee, a conflict may exist due to the potential incentive RJCS may have to recommend a portfolio manager(s) with a lower management fee.

The annual asset-based fee is paid quarterly in advance. When an account is opened, the asset-based fee is billed for the remainder of the current billing period and is based on the initial contribution. Thereafter, the quarterly asset-based fee is paid in advance, is based on the account asset value on the last business day of the previous calendar quarter, and becomes due the following business day. You authorize and direct RJA as Custodian to deduct asset-based fees from your account. You further authorize and direct the Custodian to send a quarterly statement to you, which shows all amounts disbursed from your account, including fees paid to RJA.

The brokerage statement will show the amount of the asset-based fee, the value of the assets on which the fee was based, and the specific manner in which the fee was calculated. Should you transfer management duties from one portfolio manager to another portfolio manager within RJCS platforms, any prepaid asset-based fees will be reimbursed for the period not utilized by the previous portfolio manager and billed for the remainder of the period for the newly designated portfolio manager.

Accounts are subject to a minimum quarterly fee of \$375. There generally is a minimum investment of \$100,000 for all equity and balanced accounts, and \$200,000 for most fixed income accounts, although smaller accounts may be accepted based upon the specific circumstances of an account.

The Investment Management Agreement is between us, RJCS/RJA, and you, and there is no direct agreement between the underlying portfolio manager and you.

### **Types of Investments**

We primarily offer advice on mutual funds. However, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

### **Assets Under Management**

As of February 18, 2011, we manage \$104,768,064 in client assets on a non-discretionary basis. Currently, we do not have any discretionary assets under management.

## ***Fees and Compensation***

*Form ADV Part 2A, Item 5*

Please refer to the "Advisory Business" section in this brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this brochure.

### **Compensation for the Sale of Securities or Other Investment Products**

Persons providing investment advice on behalf of our firm are registered representatives with Raymond James Financial Services, Inc. ("RJFS") a securities broker-dealer, and investment adviser and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. In their capacity as registered representatives, some of these persons will receive commission-based compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products.

Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm.

Persons providing investment advice on behalf of our firm who are licensed as independent insurance agents will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

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

Form ADV Part 2A, Item 6

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged based on a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

## **Types of Clients**

Form ADV Part 2A, Item 7

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities.

As referenced above there is a minimum account requirement of \$25,000 for the PASSPORT services. However, we generally require a minimum account size of \$500,000 to open and oversee a PASSPORT account. At our discretion, we may accept an account between \$25,000 and \$500,000 if, for example, you appear to have significant potential for increasing their assets under management, or if the smaller account is tied to a larger client relationship.

For RJCS services, there is generally a minimum investment of \$100,000 for all equity and balanced accounts, and \$200,000 for most fixed income accounts, although smaller accounts may be accepted based on the specific circumstances of an account.

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

Form ADV Part 2A, Item 8

### **Our Methods of Analysis and Investment Strategies**

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you :

- Fundamental Analysis – involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.
- Long Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your

restrictions and guidelines may affect the composition of your portfolio.

*Risks of methods of analysis:*

Fundamental Analysis - The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

**Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

**Recommendation of Particular Types of Securities**

As disclosed under the "Advisory Business" section in this Brochure, we primarily recommend mutual funds however; we may recommend investments in Cable TV, R&D Partnerships, Real Estate Investment Trusts. Additionally we may also recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. The returns on mutual funds can be reduced by the costs to manage the funds. In addition, while some mutual funds are "no load" and charge no fee to buy into, or sell out of the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end." So-called "open end" mutual funds continue to allow in new investors indefinitely, which can dilute other investors' interests.

A real estate investment trust or REIT is a corporate entity, which invests in real estate and/or engages in real estate financing. A REIT reduces or eliminates corporate income taxes. REITs can be publicly or privately held. Public REITs may be listed on public stock exchanges. REITs are required to declare 90% of their taxable income as dividends, but they actually pay dividends out of funds from operations, so cash flow has to be strong or the REIT must either dip into reserves, borrow to pay dividends, or distribute them in stock (which causes dilution). After 2012, the IRS will stop permitting stock dividends. Most REITs must refinance or erase large balloon debts this year and next. The credit markets are no longer frozen, but banks are demanding, and getting, harsher terms to re-extend REIT debt. Some REITs may be forced to make secondary stock offerings to repay debt, which will lead to additional dilution of the stockholders. Fluctuations in the real estate market can affect the REIT's value and dividends.

A limited partnership is a financial affiliation that includes at least one general partner and a number of limited partners. The partnership invests in a venture, such as real estate development or oil exploration, for financial gain. The general partner does not usually invest any capital, but has management authority and unlimited liability. That is, the general partner runs the business and, in the event of bankruptcy, is responsible for all debts not paid or discharged. The limited partners have no management authority and confine their participation to their capital investment. That is, limited partners invest a certain amount of money and have nothing else to do with the business. However, their liability is limited to the amount of the investment. In the worst case scenario for a limited partner, he/she loses what he/she invested. Profits are divided between

general and limited partners according to an arrangement formed at the creation of the partnership.

### ***Disciplinary Information***

*Form ADV Part 2A, Item 9*

Caton Financial, Inc. has been registered and providing investment advisory services since 2003. Neither our firm nor any of our Associated Persons has any reportable disciplinary information.

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

*Form ADV Part 2A, Item 10*

#### **Registrations with Broker-Dealer**

Persons providing investment advice on behalf of our firm are registered representatives with RJFS, a registered broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. In their capacity as registered representatives, some of these persons will receive commission-based compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products. Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm.

#### **Insurance**

Persons providing investment advice on behalf of our firm who are licensed as insurance agents will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate from our advisory fees. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

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

*Form ADV Part 2A, Item 11*

#### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal

account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

#### **Participation or Interest in Client Transactions**

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

#### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

### ***Brokerage Practices***

*Form ADV Part 2A, Item 12*

We recommend the brokerage and custodial services of RJFS, a registered broker-dealer and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. We believe that RJFS provides quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by RJFS, including the value of research provided the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services RJFS provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

Persons providing investment advice on behalf of our firm who are registered representatives of RJFS may recommend RJFS to you for brokerage services. These individuals are subject to applicable rules that restrict them from conducting securities transactions away from RJFS unless RJFS provides the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting securities transactions through RJFS. It may be the case that RJFS charges higher transactions costs and/or custodial fees than another broker charges for the same types of services. You may utilize the broker-dealer of your choice and have no obligation to purchase or sell securities through such broker as we recommend. However, if you do not use RJFS, we may not be able to accept your account. Please refer to the *Fees and Compensation* section above for additional disclosures on this topic.

You should be aware that best execution and lower commissions may not necessarily be achieved if recommended transactions are placed through Associated Persons of our firm in their separate capacity as a registered representative of RJFS or as a licensed insurance agent/broker.

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

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.



### **Directed Brokerage**

Persons providing investment advice on behalf of our firm who are registered representatives of RJFS may recommend RJFS to you for brokerage services. These individuals are subject to applicable rules that restrict them from conducting securities transactions away from RJFS unless RJFS provides the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting securities transactions through RJFS. It may be the case that RJFS charges higher transactions costs and/or custodial fees than another broker charges for the same types of services. If transactions are executed through RJFS, some of these individuals (in their separate capacities as registered representatives of RJFS) may earn commission-based compensation as result of placing the recommended securities transactions through RJFS. This practice presents a conflict of interest because these registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. You may utilize the broker-dealer of your choice and have no obligation to purchase or sell securities through such broker as, we recommend. However, if you do not use RJFS, we may not be able to accept your account. Please see the "Fees and Compensation" section in this brochure for more information on the compensation received by certain registered representatives who are affiliated with our firm.

### **Block Trades**

We do not combine multiple orders for shares of the same securities purchased for advisory accounts we manage (the practice of combining multiple orders for shares of the same securities is commonly referred to as "block trading"). Accordingly, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than other clients.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, the trade error will be corrected in the trade error account of the executing broker-dealer and you will not keep the profit.

## ***Review of Accounts***

*Form ADV Part 2A, Item 13*

Portfolio management -Your accounts are monitored on a continuous basis. Formal reviews are conducted at least annually. Reviews that are more frequent may be conducted on an as needed and/or predetermined basis as agreed between you and our firm. Triggering factors for additional reviews may include a client's request, significant changes in market conditions, or at our discretion. Nancy K. Caton, President/Chief Compliance Officer is responsible for overseeing all reviews.

At your request, we may review and/or update financial plans that are not implemented upon presentation. However, such reviews and/or updates are subject to our then current hourly rate.

We do not provide regular reports directly to you. However, you will typically receive monthly reports and/or a per transaction report directly from RJFS for securities transactions in their account. In general, you will also receive reports no less frequently than quarterly from the custodian holding their funds and securities.

## ***Client Referrals and Other Compensation***

*Form ADV Part 2A, Item 14*

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

Please refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with RJFS.

As disclosed under the "Fees and Compensation" section in this brochure, Nancy Caton, President is a licensed insurance agent; and, she is a registered representative with RJFS. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the "Fees and Compensation" section.

Jodi L. Johnson, Secretary and Vice President, is a registered representative of RJFS; however, she is registered in a non-sales capacity. She does not sell securities or insurance products offered by RJFS. She is not a licensed insurance agent. She does not earn commission-based compensation in connection with her association with RJFS. Ms. Johnson does not receive any additional compensation for providing advisory services beyond that received as a result of her capacity as Secretary and Vice President of Caton Financial, Inc.

## ***Custody***

*Form ADV Part 2A, Item 15*

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

## ***Investment Discretion***

*Form ADV Part 2A, Item 16*

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. Please refer to the "Advisory Business" section in this brochure for more information on our discretionary management services.

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.



## ***Voting Client Securities***

*Form ADV Part 2A, Item 17*

### **Proxy Voting**

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

## ***Financial Information***

*Form ADV Part 2A, Item 18*

Our firm does not have any financial conditions or impairments that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$500 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this brochure.

## ***Privacy Statement***

### **Caton Financial, Inc.**

#### **Customer Information Privacy Notice**

Like most industries today, the financial services industry is rapidly being shaped by technology, which is literally changing the way we do business. To be successful in this environment, we must continue to insure that our customers are confident that we will manage their financial affairs expertly and confidentially.

Caton Financial, Inc. collects personal, private information from its clients in order to determine the client's specific investment goals and objectives, which will assist in determining how to adequately service the client account based on the services provided by Caton Financial, Inc., as disclosed in its Form ADV Part II.

The safeguarding of customer information is an issue we take seriously, and we want to assure all of our customers that whenever information is collected and used, it is done so with discretion. To affirm our continuing commitment to the proper use of customer information, we have set forth the following Privacy Principles, which are designed to guide us in serving the privacy needs of our customers.

**Use, Collection, and Retention of Customer Information:** Caton Financial, Inc. limits the use, collection, and retention of customer information to what we believe is necessary or useful to conduct our business, provide quality service, and offer products, services, and other opportunities that may be of interest to our customers. Information collected may include, but is not limited to name, address, telephone number, tax identification number, date of birth, employment status, annual income, and net worth.

**Maintenance of Accurate Information:** Caton Financial, Inc. recognizes that it must maintain accurate customer records. The above referenced information is collected at the inception of your relationship with Caton Financial, Inc. Thereafter, Caton Financial, Inc. will contact you periodically to review your overall account holdings, and to ensure that personal/confidential information contained in your file is accurate. Caton Financial, Inc. also requests that you review any information provided to you related to your advisory account, and notify Caton Financial, Inc. promptly on the discovery of erroneous information. Caton Financial, Inc. will respond to a comment/request to correct inaccurate information immediately.

**Limiting Employee Access to Information:** At Caton Financial, Inc., employee access to personally identifiable customer information is limited to those employees that have a business reason to know such information. Employees are educated on the importance of maintaining the confidentiality of customer information and on these Privacy Principles.

**Protection of Information via Established Security Procedures:** Caton Financial, Inc. recognizes that a fundamental element of maintaining effective customer privacy procedures is to provide reasonable protection against the unauthorized access to customer information. Therefore, Caton Financial, Inc. has established appropriate security standards and procedures to guard against any unauthorized access to customer information.

**Restrictions on the Disclosure of Customer Information:** When it comes to sharing customer information with unaffiliated companies, Caton Financial, Inc. places strict limits on who receives specific information about customer accounts and other personally identifiable data. Caton Financial, Inc. may share information with such companies if they provide a product or service that may benefit our customers. Whenever we do this, we carefully review the company and the product or service to make sure that it provides value to our customers.

We share the minimum amount of information necessary for that company to offer its product or service. We may also share information with unaffiliated companies that assist us in providing our products and services to

our customers; in the normal course of our business (for example, with consumer reporting agencies and government agencies); when legally required or permitted in connection with fraud investigations and litigation; in connection with acquisitions and sales; and at the request or with the permission of a customer.

1. **Maintaining Customer Privacy in Business Relationships with Third Parties:** If we provide personally identifiable customer information to a third party with which we have a business relationship, we will insist that the third party keep such information confidential, consistent with the conduct of our business relationship.
2. **Disclosure of Privacy Principles to Customers:** Caton Financial, Inc. recognizes and respects the privacy expectations of our customers. We want our customers to understand our commitment to privacy in our use of customer information. As a result of our commitment, we have developed these Privacy Principles, which are made readily available to our customers. Customers who have questions about these Privacy Principles or have a question about the privacy of their customer information should call 415-461-6248.

**Closed or Inactive Accounts:** If you decide to close your account(s) or become an inactive customer, our Privacy Policy will continue to apply to you.

These Privacy Principles apply to individuals, and we reserve the right to change these Privacy Principles, and any of the policies or procedures described above, at any time. Under such circumstances, we will provide you with an updated set of our policies, and will provide adequate time for you to opt out of any information sharing arrangement. These Privacy Principles are for general guidance and do not constitute a contract or create legal rights and do not modify or amend any agreements we have with our customers.