



Firm Brochure
(Part 2A of Form ADV)

STEARNS FINANCIAL GROUP

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This brochure provides information about the qualifications and business practices of Stearns Financial Group. If you have any questions about the contents of this brochure, please contact us at the telephone number or e-mail address noted above. 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.

In cases where this brochure uses the term “registered” or “registered investment advisor,” registration does not imply a certain level of skill or training.

Additional information about Stearns Financial Group is available on the SEC’s website at www.adviserinfo.sec.gov.

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Item 2 Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

Business name has changed to Stearns Financial Group. Legal name remains Stearns Financial Services Group, Inc. Given this change in business name, primary website address has changed to www.StearnsFinancial.com. Stearns Financial Group still owns the rights to the domains www.sfsg.net and www.StearnsFinancial.net which direct inquiries to www.StearnsFinancial.com. Stearns Financial Group also opened a second office in Chapel Hill, NC.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 800-881-SFSG or by email at: sfsg@sfsg.net.

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Item 4 Advisory Business

Our History

Stearns Financial Group, ("SFG") is a registered investment advisor offering personalized financial planning, investment management, wealth management, and investment consultancy services. We were organized in 1991.

As of 12/31/2011 we managed approximately \$454,988,923 for clients located in the United States and Canada.

Our Principles

We believe:

1. Clients should be our first priority.
2. Portfolios should be custom-designed to each client in order to meet their unique goals.
3. We are a research-intensive firm. SFG has developed extensive networks and research tools and expertise to help us form better "what if?" scenarios in a rapidly changing world.
4. Assets should be pro-actively and rigorously managed by disciplined, un-biased, and objective investment professionals.
5. Our focus should be on solving client problems, not selling.

Our People

Our firm works as a team with your goals as its main objective. Our executives are experienced professionals active in local and national organizations.

Biographies for our advisors and senior personnel will be provided separately as part of the Brochure Supplement (Part 2B of Form ADV).

Our Services

SFG provides personalized financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and businesses. SFG's advisory services are tailored to the individual needs of our clients. This is accomplished by gathering information about each client's current financial situation, goals and objectives and any constraints or special considerations. The client will generally receive a financial plan and/or investment policy statement depending on the service provided.

Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

SFG is strictly a fee-only financial planning and investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted.

Our services can be primarily divided into six categories:

1. Wealth Management
2. Investment Management
3. Financial Planning
4. Business Planning
5. Qualified Retirement Plan Management
6. Investment Supervision

Wealth Management

This is a comprehensive service that offers a complete wealth management solution to our clients. It combines our expertise in investment management, risk management, financial planning, and estate planning.

Investment Management

We work with you to develop a customized investment strategy that reflects your overall investment goals and is consistent with your individual risk tolerance. You provide us with limited discretionary authority so we can regularly manage and adjust your portfolio to capitalize on existing market conditions.

Financial Planning

SFG advises clients regarding cash flow, college planning, retirement planning, tax planning and estate planning, insurance/risk planning, and charitable planning. Often this results in projections of possible financial outcomes under a number of possible client and economic scenarios. Such projections may be updated periodically to reflect changes in the client's circumstances.

You may engage other professionals (e.g., lawyers, accountants, insurance agents, etc.) as needed to implement aspects of the financial plan. Conflicts

of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to you.

Business Planning

We provide specific advice to business owners regarding business planning, succession planning, business continuity, and asset protection. SFG has developed expertise and processes to help business owners evaluate future scenarios and track progress towards business goals. We have an extensive network of business experts that we can utilize to help our clients attain their business and personal goals.

Qualified Retirement Plan Management

We develop customized investment strategies and provide on-going investment management for a limited number of corporate 401(k) plans. SFG also provides one-time consulting services for qualified plans to help plan trustees evaluate strategic and tactical strategies and provide general investment advice.

Investment Supervision (Consulting)

SFG will provide special one-time or on-going consulting services. We evaluate your existing investments in terms of their economic and tax characteristics, as well as their suitability in meeting your investment objectives. Under our special consulting services, you decide whether or not you will implement our recommendations.

Our Ownership Structure

Dennis G. Stearns is the sole stockholder.

Our Assets Under Management

As of 12/31/2011, SFG managed approximately \$454,988,923 of client assets on a discretionary basis and \$15,599,500 on a non-discretionary basis, which includes SFG employee-related and proprietary accounts

Discretionary authority gives us the ability to determine quantity and type of securities to be bought or sold. You give us such authority in our Investment Management Agreement. Limited Power of Attorney on custodian contracts also gives us discretionary authority.

In your customized Investment Policy Statement (IPS), you may impose restrictions on investing in certain securities or types of securities.

Item 5 Fees and Compensation

How We Are Paid

SFG bases its fees on a percentage of assets under management, hourly charges, or fixed fees depending on the service you select.

Investment management and wealth management fees are computed and assessed quarterly in advance. We apply the percentage negotiated in your agreement to the valuation of assets under management as of the last trading day of the prior quarter. With your written authorization, we will deduct fees directly from your account at the custodian. In certain circumstances, we may send you an invoice for payment by check.

Financial planning and business planning are priced as an hourly fee or a fixed fee according to the degree of complexity associated with the client's situation.

Initial financial planning fees are generally paid in two installments: half up front and the balance at delivery. Some clients choose more intensive wealth management services that also include quarterly fee retainers. Clients may engage us on an ongoing retainer for business planning services, billed either monthly or quarterly.

In limited circumstances, fees are negotiable and will be mutually decided before the agreement is executed.

Our Fee Schedules

The fee schedule for each service is detailed below. Some clients' fee schedules may be based on prior contractual arrangements and/or historical fee schedules that differ from the schedules below.

Wealth Management

Accounts under \$1,000,000...Service not available

On the first \$3,000,000.....1.20% annually

On the next \$2,000,000.....0.85% annually

On the balance over \$5,000,000...0.50% annually

The *minimum* annual fee is \$12,000.00. All fees are billed quarterly in advance.

Investment Management

There is an initial **Design Fee** where additional work is required for investment allocation, design, special asset research or historical cost basis analysis. The Design Fee is a one-time fee and is a percentage of the assets valued on the date of the execution of the Investment Management Agreement.

On the first \$1,000,000.....0.25%

On the next \$2,000,000.....0.15%

On the next \$2,000,000.....0.10%

On the balance over \$5,000,000.....0.05%

The fees for continuous and regular **investment management** are based on the following schedule:

On the first \$1,000,000.....1.00% annually

On the next \$2,000,000.....0.75% annually

On the next \$2,000,000.....0.50% annually

On the balance over \$5,000,000.....0.35% annually

The minimum annual fee is \$7,000.00. These fees are billed quarterly in advance.

Financial Planning

New Clients:

- **Advanced Financial Plan** including Scenario Analysis - \$3,500-\$10,000 and up (includes first year planning follow up and implementation services)
- **Financial Health Check-Up** - \$1,500-\$2,500 (includes less intensive version of advanced financial plan, fewer scenarios and analysis of 1-2 areas of client concern)
- **Single Area Financial Review** - \$750-\$2,500 and up (analysis and advice on specific areas of concern for clients)
- **Divorce Planning** may involve a combination of retainer and hourly fee billings based on complexity - \$100-\$400 per hour, based on advisor and specialist rates

Existing Clients:

- Flat Retainers and Hourly Fee Billing - \$100-\$400 per hour, based on advisor and specialist rates
- Investment Management clients generally receive a 25-50% discount (depending on complexity) when we update previously developed work.

- No additional charges for Wealth Management clients unless substantial planning changes are required.

Business Planning

Business Transition and Exit Planning - \$10,000-\$25,000 and up (varies depending on complexity)

Business planning fees are generally billed at 50% of the overall engagement retainer. Balance will be due as work is performed. Where outside consultants are engaged, SFG will provide information in advance on the anticipated fees for their services.

Qualified Retirement Plan Management

The fees for continuous and regular investment management are

On the first \$500,000.....0.75% annually

On the next \$500,000.....0.65% annually

On the next \$2,000,000.....0.50% annually

On the balance over \$3,000,000...0.35% annually

These fees are billed quarterly in advance.

Investment Supervision

SFG provides one-time and annual retirement plan investment consulting services for fixed fees that range from \$2,500 - \$10,000 and up. SFG will occasionally provide hourly consulting for retirement plans and their trustees.

These fees are generally billed as work is performed.

Past Due Accounts and Termination of Agreement

SFG reserves the right to stop work on any account that is more than sixty (60) days overdue. In addition, SFG reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in our judgment, to providing proper financial advice.

Any unused portion of fees collected in advance will be refunded.

If an agreement is terminated within five (5) business days of execution, you will be entitled to a full refund. If the agreement is terminated after the five (5) day period, any unearned portion of fees previously paid is prorated and fully refundable. You may terminate your agreement

with us at any time by providing written notice to us. SFG requires thirty (30) days written notice prior to the effective date of cancellation.

Other Fees You Should Understand

Custodians may charge transaction fees on purchases or sales of stocks, bonds, certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security.

The custodian may also charge other brokerage and custodial fees. See the section entitled “Brokerage Practices” for a discussion of how we make brokerage decisions that affect client accounts.

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% of assets for their services. These fees are in addition to the fees you pay us. SFG utilizes lower cost, high minimum (generally \$1-5 million) institutional mutual funds when possible.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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

Our Policy

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

SFG does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

Item 7 Types of Clients

Our Clients

SFG generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

Client relationships vary in scope and length of service.

Minimum Account Size

The minimum account size for new **investment management** clients is \$500,000 of assets under management. The minimum account size for new **wealth management** clients is \$1,000,000 of assets under management. We may reduce these thresholds for extended family members, financial planning and wealth management clients that are early in their savings accumulation and referrals from existing clients.

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

Our Investment Philosophy

SFG takes a long-term investment approach, emphasizing asset allocation strategies and diversification as a means of reducing risk.

As investors, we believe thorough research and a disciplined investment process are critical to success. Research allows us to base decisions on knowledge rather than speculation or passing trends. Our discipline helps us to avoid making emotional or irrational decisions that often lead to investing mistakes.

We view asset allocation as the key to investment success. Asset allocation is the process of selecting the asset classes that comprise an investment portfolio. Blending the right mix of these asset classes determines not only the investment return you are likely to achieve over a full market cycle (typically four to six years) but also the level of risk you are taking to achieve that return.

All asset classes fluctuate through periods of under/over valuation and this creates opportunities to add value through disciplined asset allocation strategies and prudent security and investment manager selection.

We also acknowledge that there is the risk that we may misinterpret these opportunities and that our asset allocation decisions may hurt performance or possibly lead to an investment loss.

Methods of Analysis

SFG utilizes both fundamental and technical analysis to analyze securities. We believe that over

time, an investment's fundamentals (earnings, cash flows, revenues, financial strength, etc.) will drive performance but that technical analysis (studying past market data to try to determine future price trends) can potentially enhance performance and reduce risk from an investment entry or timing standpoint. We subscribe to various third-party research providers to assist us with this analysis as well as to provide macro-economic analysis.

Our Objectivity

Since SFG is an independent investment advisor with no affiliations to other investment firms, we are able to be objective when reviewing potential investments. Therefore we are not limited to a certain company's investment choices, but can instead search the entire investment universe for the most attractive investment solutions. We also do not receive any compensation or benefit from selecting an investment and evaluate each investment based on its own merits.

Periodically, persons associated with SFG will attend due diligence conferences sponsored by investment companies. The sponsor of the conference may pay the airfare, hotel, and meals. The benefits we receive from our attendance do not impact the judgment of our Investment Committee and benefits of the research we obtain inure to all of our clients.

Our Investment Strategies

SFG has developed four basic objective and risk categories that are tailored to each client's individual needs. These four basic models are:

- 1) **Growth and Income** objective; Moderate risk – 40% Stocks/60% Bonds Benchmark
- 2) **Growth and Income** objective; Moderate Aggressive risk – 60% Stocks/40% Bonds Benchmark
- 3) **Growth** objective; Moderate risk – 75% Stocks/25% Bonds Benchmark
- 4) **Growth** objective; Moderate Aggressive risk – 90% Stocks/10% Bonds Benchmark

Within each model, SFG may use approximately ten (10) to twenty (20) different asset/sub-asset classes. The allocation and selection of these asset and sub-asset classes is dependent on economic conditions at the time and tailored to each client.

We use these four models and ten to twenty asset/sub-asset classes to tailor a model especially for you. We consider the following circumstances

when designing a model and investment methodology:

- Family goals
- Investment objectives
- Risk comfort level
- Net Worth and income outlook
- Time horizon
- Liquidity needs
- Tax and legal considerations
- Personal preference and special needs
- Estate planning and generational issues.

These models are rigorously monitored and adjusted on a strategic (long-term) and tactical (short-term) basis based on our intensive research and scenario planning.

We either use or offer advice on the following types of investments:

- Certificates of Deposit
- Commercial Paper
- Debt securities ("Bonds") – corporate debt securities, U.S. government securities, municipal securities and securities of foreign issuers
- Equity securities ("stocks") – exchange-listed securities, over-the-counter securities and securities of foreign issuers
- Exchange-Traded Funds (ETFs)
- Mutual Funds (use no-load or load-waived funds only)
- Options Contracts on securities and commodities
- Partnership interests in real estate and oil and gas
- Separately Account Managers have been used in limited circumstances
- Variable life insurance and annuities
- Warrants

Risk of Loss

All investment programs have certain risks that are borne by the investor. Clients should be prepared to bear the risk of loss. Our investment approach

constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar tomorrow will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation. Investments in traditional stocks and bonds may lose value when inflation is on the rise.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash without experiencing a loss. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must

meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

- **Political or Country Risk:** The price of a security, bond or mutual fund may drop as a result of political changes or instability in a specific country.
- **Short Selling Risk:** Short selling is a speculative strategy that carries significant risks. Generally it is not an appropriate strategy except for the most knowledgeable investors. Short selling involves selling a borrowed security with the hopes of buying the same security back later at a lower price, returning the security to the lender and profiting on the price differential. However if the security rises in price after the short sell, the short seller could be forced to buy back the security at a significantly higher price and incur a potentially unlimited loss.
- **Option Risks:** Options are complex securities that are based on the value of an underlying investment and can be used for hedging risk, generating additional income and speculating. Option buyers generally only risk the premium or dollar amount paid to enter an option contract and are not obligated to exercise the contract. Option writers collect the premium income but could incur more significant losses since they are obligated to fulfill the contract if the option buyer exercises. Uncovered option writing is a speculative strategy that carries significant risks. This strategy is generally not appropriate for most investors. Since uncovered option writers do not own the underlying security, their loss potential is magnified based on the underlying security's price fluctuations.
- **Investment Manager Risk:** The risk associated with managers, such as those actively managing mutual funds, seeking to outperform a market index or benchmark return. The manager's investment decisions may not pan out and could cause the manager to underperform the index or benchmark target for a given time period.
- **Private Placement Risk:** Securities issued privately have additional risks compared with publicly traded securities. Private markets are typically less liquid (higher liquidity risk) and provide less information than public markets.

- **Call Risk:** Fixed income securities may have a call provision that allows the issuer to repay the debt prior to maturity. This provision is often exercised when interest rates decline. Thus investors in callable securities may not experience the full price increase that other fixed income securities typically experience when interest rates decline. In addition, the proceeds received from the payoff of these securities may have to be reinvested at lower current interest rates (Reinvestment Risk).

Item 9 Disciplinary Information

Legal and Disciplinary

Not Applicable.

Item 10 Other Financial Industry Activities and Affiliations

Our Financial Industry Activities

SFG is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

Our Affiliations

SFG has no affiliations that are material to our advisory activities to our clients.

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

Our Code of Ethics

We impose restrictions on ourselves and any person associated with us in connection with the purchase or sale, directly or indirectly, for their own accounts or accounts controlled by them, of securities recommended to or purchased for clients. The employees of SFG have committed to a Code of Ethics that is based on the principle that the interests of clients must always be paramount. The Code of Ethics is available for review by clients and prospective clients upon request.

Participation or Interest in Client Transactions

SFG and its employees may buy or sell securities that are also held by clients. The Code of Ethics requires pre-clearance of individual equity transactions so that employees may not trade their own securities ahead of client trades. Employees are required to comply with the provisions of our Code of Ethics and *Compliance Manual*.

At times, SFG owners, officers, or directors may serve as directors of companies in which you invest. You will be informed of this potential conflict when it exists.

Personal Trading

The Chief Compliance Officer of SFG is Dennis G. Stearns. He, or his designee, reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades are not likely to affect the securities markets.

Insider Trading

As part of its Code of Ethics, SFG has adopted policies and procedures to detect and prevent the misuse of “insider” information (material, non-public information).

Item 12 Brokerage Practices

Selecting Brokerage Firms

Unless we receive specific instructions from a client regarding the placement of brokerage business, SFG will select the brokers and dealers to effect client transactions. SFG evaluates brokerage firms in terms of their best execution capabilities. Best execution considers more than just whether the broker will provide the best execution of the desired transaction. In addition to the best execution price, best execution considers the overall reasonableness of brokerage commissions paid and other factors such as the level of service provided to us and our clients, the receipt of research products and services, investment product availability, technology solutions and access to analysis of economic and market data. If you have directed us to use a specific broker or dealer, we cannot guarantee best execution.

SFG recommends Charles Schwab & Co, Inc. (“Schwab”) or TD Ameritrade (“Ameritrade”) as qualified custodians for your discretionary investment management account and for trading in that account. We do not receive fees or commissions from these arrangements.

Best Execution

SFG’s Investment Committee evaluates custodians in terms of best execution annually. The review is documented in the *SFG Compliance Manual*. Trading fees charged by the custodians is also reviewed on an annual basis. SFG does not receive any portion of the trading fees.

Soft Dollars

SFG does not participate in any soft dollar agreements. However, SFG does receive research products and other services from our recommended brokerage firms. These products and services are generally made available to independent investment advisors, such as SFG, on an unsolicited basis. These products and services include:

- Service and support staffs
- Research products and market analysis
- Client account information (statements, confirmations, tax reports, etc.)
- Web-based electronic trading
- Advisory fee debiting
- Practice management and compliance webcasts

Charles Schwab has also periodically provided SFG with a discounted registration rate to industry conferences.

SFG’s receipt of these products and services creates a potential conflict of interest based on SFG’s recommendation of Schwab and TD Ameritrade. SFG’s objectivity in evaluating brokerage firms could potentially be compromised.

Another consideration is that the benefits of these research products and services could potentially also accrue to clients using non-recommended brokerage firms.

Order Aggregation

Where possible, we will batch all transactions for all clients in a single transaction. Then, we follow our trade allocation policy among clients that are

transacting in the same security. If an order is partially filled, the shares will be allocated to clients included in the batched order on a prorated basis based on the size of the participating accounts.

At times, employee trades may be included in a batch order with clients. In these cases, employees will never receive preferential treatment over clients. In the event of a partially-filled order, they will be included in the prorated allocation.

Item 13 Review of Accounts

Periodic Reviews

We review our investment management and wealth management accounts at least quarterly. The reviews are conducted by Dennis G Stearns – President and Chief Compliance Officer, M. James McKee, III – Senior Financial Advisor and Investment Committee Chairman, J. Glenn Joyce, Jr. – Vice President, Research and Operations and Assistant Compliance Officer, John M. Thomas – Vice President, or Phillip E. Williams, Jr. – Financial Analyst. Account reviewers are members of the firm’s Investment Committee. They are instructed to consider the client’s current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Review Triggers

Portfolio adjustments may be made when the Investment Committee revises its view of a security or asset class relative to other opportunities. Other reviews may be triggered by market activity, general economic conditions, political trends, and individual client objectives and risk tolerance.

Regular Reports

SFG will send written performance reports at least annually to all clients. The custodian will send clients an account statement at least quarterly.

Item 14 Client Referrals and Other Compensation

Incoming Referrals

SFG has been fortunate to receive many client referrals over the years. The referrals came from

current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm also receives referrals as a corporate member of the National Association of Professional Financial Advisors (NAPFA), the national membership association of fee-only advisors. The firm also receives referrals from the Financial Planning Association (FPA). The firm does not compensate referring parties for these referrals.

Referrals Out

SFG does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Item 15 Custody

Our Policy

Based on SEC regulations, SFG is deemed to have custody of the funds and securities of most of our clients. We are required to maintain all such funds and securities with a bank, broker-dealer or other qualified custodian. Such third-party custodian (unaffiliated with SFSFG) will provide account statements directly to clients at their address of record at least quarterly.

Account Statements

All assets are held at qualified custodians, which mean the custodians provide account statements directly to clients at their address of record at least quarterly.

Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements prepared by SFG.

Item 16 Investment Discretion

Discretionary Authority for Trading

SFG accepts discretionary authority to manage securities accounts on behalf of clients. In the advisory agreement, you give us the authority to determine, without obtaining your specific consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

At the beginning of our relationship, you pre-approve the custodian to be used to fulfill the trades we direct on your behalf. SFG does not receive any portion of the transaction fees or commissions you pay to the custodian on trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may maintain the investment policy that you have approved in writing.

Where we serve as a consultant, we must obtain your approval to make portfolio changes.

Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute trades without your specific approval.

Item 17 Voting Client Securities

Our Policy

SFG does not vote proxies on securities. Clients are expected to vote their own proxies. Clients receive their proxies directly from the custodian.

Clients may contact SFG via phone or email when assistance on voting proxies is requested and we will provide recommendations to you. In the unlikely event that a conflict of interest exists, it will be disclosed to you.

Item 18 Financial Information

Our Financial Condition

Not Applicable

Business Continuity Plan

General

SFG has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-

made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

Alternate Offices

SFG's main office is located in Greensboro, NC with a second office in Chapel Hill, NC. In addition to the Chapel Hill office, alternate offices will be identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

Information Security Program

Information Security

SFG maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Privacy Notice

SFG is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to provide you the best advice to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You also may instruct us under what circumstances we may share information with children or other family members. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our company records and your personal records as permitted by law. We are required to provide information on your accounts to regulators or special auditors.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this **Privacy Notice** to you annually, in writing.



Brochure Supplement
(Part 2B of Form ADV)

STEARNS FINANCIAL GROUP

GREENSBORO OFFICE (MAIN)
324 W. Wendover Ave, Suite 204
Greensboro, NC 27408
336-230-1811

CHAPEL HILL OFFICE
1450 Raleigh Road, Suite 105
Chapel Hill, NC 27517
919-636-3634

800-881-SFSG ✧ www.StearnsFinancial.com ✧ sfsg@sfsg.net

This brochure supplement provides information about the following persons and supplements the Stearns Financial Group brochure:

- J. Glenn Joyce, Jr.
- M. James McKee, III
- Sherry McKinney
- Haleh Moddasser
- Dennis G. Stearns
- Pamela S. Stearns
- John M. Thomas
- Phillip E. Williams, Jr.

You should have received a copy of the Stearns Financial Group brochure. Please contact J. Glenn Joyce, Jr. if you did not receive SFG's brochure or if you have questions about the contents of this supplement.

Additional information about Stearns Financial Group is available on the SEC's website at www.adviserinfo.sec.gov.

May 2012

IARD No. 106298 SEC File No. 801 - 39328

Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards

SFG requires that advisors in its employ have a bachelor's degree and further education or designations demonstrating knowledge of financial planning or tax planning. Examples of acceptable education include: an MBA, a master's degree in finance or a related discipline, or JD. Examples of acceptable designations include: a CFP®, a CFA, a ChFC, or CPA. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

Professional Certifications

Employees' additional certifications and credentials explained in further detail:

Certified Financial Planner (CFP): Certified Financial Planners are licensed by the CFP Board to use the CFP mark. CFP certification requirements:

- Bachelor's degree from an accredited college or university.
- Completion of the financial planning education requirements set by the CFP Board (www.cfp.net).
- Successful completion of the 10-hour CFP® Certification Exam.
- Three-year qualifying full-time work experience.
- Successfully pass the Candidate Fitness Standards and background check.
- Agree annually to be bound by CFP Board's *Standards of Professional Conduct*.
- Complete 30 hours of continuing education every two years, including two hours on the *Code of Ethics* and *Standards of Professional Conduct*.

Chartered Financial Analyst (CFA): Chartered Financial Analysts are licensed by the CFA Institute to use the CFA mark. CFA certification requirements:

- Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- Successful completion of all three exam levels of the CFA Program.
- Have 48 months of acceptable professional work experience in the investment decision-making process.
- Fulfill society requirements, which vary by society. Unless you are upgrading from affiliate membership, all societies require two sponsor statements as part of each application; these are submitted online by your sponsors.
- Agree to adhere to and sign the Member's Agreement, a Professional Conduct Statement, and any additional documentation requested by CFA Institute.
- Adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Chartered Financial Consultant (ChFC): Chartered Financial Consultants are certified by the Certification Committee of the Board of Trustees of The American College to use the ChFC mark. ChFC certification requirements:

- Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- Successful completion eight college-level financial planning courses from The American College.
- Three years of full-time business experience. (A graduate or undergraduate degree qualifies as one year of business experience.)
- Successful completion of the ChFC Certification Exam.
- Agree to adhere to the ChFC Code of Ethics.
- Obtain 30 hours of continuing education credits every two years.

Certified Public Accountant (CPA): Certified Public Accountants are licensed in the state in which they practice. While requirements to sit for the exam vary from state to state, the following are general CPA certification requirements:

- Hold a bachelor's degree from a regionally accredited institution with a concentration generally in accounting.
- Some states may also require a minimum amount of accounting and/or auditing experience.
- Successful completion of all four sections of the 14-hour Uniform CPA Exam.
- Agree to adhere to state board ethics and professional conduct requirements.
- The state board determines the continuing education requirements.

Item 2 Educational Background and Business Experience

Educational Background:

- University of North Carolina – Chapel Hill – Bachelor of Arts in Economics and Industrial Relations; 1989
- Certified Financial Planner (CFP); 2006
- Chartered Financial Analyst (CFA); 2008

Business Experience:

- Vice President, Investment Analyst and Investment Committee Member – Stearns Financial Group – October 2003 to present.

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

J. Glenn Joyce, Jr. is supervised by Dennis Stearns, President. He reviews Mr. Joyce's activities through frequent office interactions as well as remote interactions.

Dennis Stearns' contact information:

(336) 230-1811

dstearns@sfsg.net

Item 2 Educational Background and Business Experience

Educational Background:

- Wake Forest University – Bachelor of Science in Accountancy; 1980
- University of North Carolina – Greensboro – Master of Business Administration (MBA); 1984
- Certified Public Accountant (CPA); 1983
- Chartered Life Underwriter (CLU); 1990
- Chartered Financial Consultant (ChFC); 1991
- Certified Financial Planner (CFP); 2002
- Chartered Financial Analyst (CFA); 2008

Business Experience:

- Senior Financial Advisor, Investment Committee Chairman – Stearns Financial Group – 2001 to Present.

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

M. James McKee III is supervised by Dennis Stearns, President. He reviews Mr. McKee's activities through frequent office interactions as well as remote interactions.

Dennis Stearns' contact information:

(336) 230-1811

dstearns@sfsg.net

Item 2 Educational Background and Business Experience

Educational Background:

- University of North Carolina – Chapel Hill - Bachelor of Science Business Administration; 1985
- University of North Carolina - Greensboro – Master of Business Administration (MBA); 1989
- Certified Public Accountant (CPA); 1990
- Certified Financial Planner (CFP); 2003

Business Experience:

- Financial Planning Manager – Stearns Financial Group – November 2010 to present.
- Financial Advisor – Capital Management, Inc. – May 2004 to July 2009

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

Sherry McKinney is supervised by Dennis Stearns, President. He reviews Ms. McKinney's activities through frequent office interactions as well as remote interactions.

Dennis Stearns' contact information:

(336) 230-1811

dstearns@sfsg.net

Item 2 Educational Background and Business Experience

Educational Background:

- University of North Carolina – Chapel Hill - Bachelor of Arts in Journalism; 1985
- Certified Public Accountant (CPA); 1992

Business Experience:

- Financial Advisor – Stearns Financial Group – January 2011 to present
- Certified Public Accountant – Hughes, Pittman and Gupton – August 2010 to December 2010
- Assistant Treasurer – Burlington Industries – 1993 to 1997
- Senior Accountant – Price Waterhouse – 1989-1991

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

Owner/Operator of Alla Prima Studio – a small arts studio. She teaches art and paints professionally. 12-15 hours per month.

Item 5 Additional Compensation

None

Item 6 Supervision working out of our Triangle office.

Dennis Stearns' contact information:

(336) 230-1811

dstearns@sfsg.net

Item 2 Educational Background and Business Experience

Educational Background:

- University of South Florida – Bachelor of Arts in Finance; 1978
- American College – Master of Arts in Finance; 1987
- Chartered Financial Consultant (ChFC); 1983
- Certified Financial Planner (CFP); 1990

Business Experience:

- President, Chief Compliance Officer and Investment Committee Member – Stearns Financial Group – 1991 to present

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

Dennis Stearns' compliance-related activities are supervised by J. Glenn Joyce, Jr., Vice President and the management team, which includes members of the Investment and Risk Committees. Mr. Joyce reviews Mr. Stearns' compliance-related activities through frequent office interactions as well as remote interactions.

J. Glenn Joyce, Jr.'s contact information:

(336) 230-1811

gjoyce@sfsg.net

Item 2 Educational Background and Business Experience

Educational Background:

- University of California – Los Angeles – Bachelor of Arts in Economics; 1979
- University of California – Irvine – Master of Business Administration (MBA); 1983
- Certified Public Accountant (CPA); 1985 – California
- Certified Public Accountant (CPA); 2009 – Licensed to practice in North Carolina

Business Experience:

- Chief Financial Officer – Stearns Financial Group – May 2007 to present.
- President – Navigating Wealth – Jan 2005 to May 2007

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

Pamela Stearns is supervised by Dennis Stearns, President. He reviews Mrs. Stearns' activities through frequent office interactions as well as remote interactions.

Dennis Stearns' contact information:

(336) 230-1811

dstearns@sfsg.net

Item 2 Educational Background and Business Experience

Educational Background:

- University of Virginia – Bachelor of Arts in Economics and Foreign Affairs; 1992
- Loyola College – Master of Business Administration (MBA); 1997
- Chartered Financial Analyst (CFA); 2002
- Certified Financial Planner (CFP); 2005

Business Experience:

- Vice President, Portfolio Manager and Investment Committee Member – Stearns Financial Group – May 2005 to present.

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

John M. Thomas is supervised by Dennis Stearns, President. He reviews Mr. Thomas' activities through frequent office interactions as well as remote interactions.

Dennis Stearns' contact information:

(336) 230-1811

dstearns@sfg.net

Item 2 Educational Background and Business Experience

Educational Background:

- Wake Forest University – Bachelor of Science in Mathematical Economics; 2006
- Chartered Financial Analyst (CFA); 2011

Business Experience:

- Financial Analyst – Stearns Financial Group – August 2011 to present.
- Assistant Vice President – Bank of America – January 2010 to August 2011.
- Analyst – Banc of America Securities – June 2006 to April 2009.

Item 3 Disciplinary Information

None

Item 4 Other Business Activities

None

Item 5 Additional Compensation

None

Item 6 Supervision

Phillip E. Williams, Jr. is supervised by Glenn Joyce, Vice President and Investment Analyst. He reviews Mr. Williams' activities through frequent office interactions as well as remote interactions.

Glenn Joyce's contact information:

(336) 230-1811

gjoyce@sfsg.net