

## **Form ADV Part 2A: Disclosure Brochure**

12/23/2011

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This brochure provides information about the qualifications and business practices of Calton & Associates, Inc. If you have any questions about the contents of this brochure, please contact us at 813.264.0440. 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 Calton & Associates is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Calton & Associates, 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.

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Generally, Calton & Associates, Inc. will notify its clients of material changes on an annual basis. However, where the firm determines that an interim notification is either meaningful or required, the firm will notify its clients promptly. In either case, Calton & Associates, Inc. will notify its clients in a separate document.

### Item 3 Table of Contents

Item 2	Material Changes .....	ii
Item 3	Table of Contents .....	iii
Item 4	Advisory Business .....	1
Item 5	Fees and Compensation .....	3
Item 6	Performance-Based Fees and Side-By-Side Management .....	5
Item 7	Types of Clients .....	5
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9	Disciplinary Information .....	10
Item 10	Other Financial Industry Activities and Affiliations .....	10
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	10
Item 12	Brokerage Practices .....	11
Item 13	Review of Accounts .....	13
Item 14	Client Referrals and Other Compensation .....	13
Item 15	Custody .....	14
Item 16	Investment Discretion .....	14
Item 17	Voting Client Securities .....	14
Item 18	Financial Information .....	15
Item 20	Additional Information .....	15

## Item 4 Advisory Business

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

Calton & Associates, Inc. is a registered investment adviser primarily based in Tampa, Florida. We are organized as a corporation under the laws of the State of Florida. We have been providing investment advisory services since 1989. Dwayne K. Calton is our firm's principal owner. Currently, we offer the following investment advisory services, which are personalized to each individual client:

- Portfolio Management Services
  - Separate Account Management Platforms
  - Separate Account Management
- Financial Planning Services
- Selection of Other Advisers
- Pension Consulting Services

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. As used in this brochure, the words "we", "our" and "us" refer to Calton & Associates, Inc. and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm.

### ***Portfolio Management Services***

We offer discretionary and non-discretionary portfolio management services. Our investment advice is tailored to meet our clients' needs and investment objectives. If you retain our firm for portfolio management services, we may meet with you to determine your investment objectives, risk tolerance, and other relevant information (the "suitability information") at the beginning of our advisory relationship and/or develop an Investment Policy Statement. We will use the suitability information we gather and/or Investment Policy Statement to recommend an initial portfolio to you.

As part of our portfolio management services, we may customize an investment portfolio for you in accordance with your risk tolerance and investing objectives or we may also invest your assets using a predefined strategy or one or more model portfolios. Once we construct an investment portfolio or select a model portfolio for you, we will monitor your portfolio and will rebalance/reallocate the portfolio periodically or as required by changes in market conditions and your financial circumstances, depending on the engagement with the client.

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 with our firm, a power of attorney, or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. 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.

### **Separate Account Management Platforms**

We offer access to multiple managers and allocation services through our Separate Account Management Platforms. Based on your needs and suitability, we may recommend or select a Separate Account Management Platform, to manage all, or a portion of, your assets. Each platform includes access to sub-managers. We will regularly monitor the performance of your accounts managed in the Separate Account Management Platform(s), and may hire and fire any sub-manager without your prior approval.

### Separate Account Managers

We offer access to several separate account managers to manage all, or a portion of, your assets. If we recommend a separate account manager to you, you will be required to enter into an investment advisory agreement with the separate account manager as well as with our firm. We will regularly monitor the performance of your accounts managed by separate account managers, but will not hire and fire any separate account manager without your prior approval.

### *Financial Planning Services*

We offer broad-based, modular, and consultative financial planning services, which may include, but is not limited to, the following: wealth management planning, retirement planning, business/succession planning, and insurance/risk management planning. Broad-based financial planning will typically involve providing a variety of advisory services to clients regarding the management of their financial resources based upon an analysis of their individual needs. If you retain our firm for financial planning services, we will meet with you to gather information about your financial circumstances and objectives. Once we review and analyze the information you provide to our firm and the data derived from our financial planning software, we will deliver a written plan to you, designed to help you achieve your stated financial goals and objectives.

If you only require advice on a single aspect of the management of your financial resources, we offer financial plans in a modular format and/or general consulting services that address only those specific areas of interest or concern. We may also offer ongoing financial planning services, which may include one or more of the following services: update financial plans as needed; provide periodic performance reports; meet with you periodically. The annual fees charged for this service are billed quarterly.

We also offer an Open Retainer Program whereby you may hire our firm to provide financial planning and/or consulting services as needed on an ongoing basis. Our Open Retainer Program is renewable annually.

Financial plans are based on your financial situation at the time we present the plan to you, and on the financial information you provide to our firm. You must promptly notify our firm if your financial situation, goals, objectives, or needs change. We may make certain assumptions with respect to interest and inflation rates and use of past trends and performance of the market and economy. Past performance is in no way an indication of future results. We do not offer any guarantees or promises that your financial goals and objectives will be met.

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.

### ***Selection of Other Advisers***

We may recommend that you use the services of a third party investment adviser ("TPA") to manage your entire, or a portion of your, investment portfolio. After gathering information about your financial situation and objectives, we may recommend that you engage a specific TPA or investment program. Factors that we take into consideration when making our recommendation(s) include, but are not limited to, the following: the TPA's performance, methods of analysis, fees, your financial needs, investment goals, risk tolerance, and investment objectives. We will monitor the TPA(s)' performance to ensure its management and investment style remains aligned with your investment goals and objectives.

### *Pension Consulting Services*

We offer pension consulting services to employee benefit plans and their fiduciaries based upon the needs of the plan and the services requested by the plan sponsor or named fiduciary. In general, these services may include an existing plan review, formation of the investment policy statement, asset allocation advice, investment performance and monitoring, and/or communication and education services where we assist the client in providing meaningful information regarding the retirement plan to

participants. In addition, we may offer assistance in setting up a relationship with a third party administrator and processing enrollment forms.

We will not have discretion over the administration of the plan or the plan assets. Advice to plan participants will be limited to general, impersonal advice.

### **Types of Investments**

We offer advice on equity securities, warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities, U.S. Government securities, options contracts on securities, futures contracts on intangibles, and interest in partnerships investing in real estate and oil and gas interests.

Additionally, we may advise you on other types of investments that we deem appropriate based on your stated goals and objectives. We may also provide advice on other types of investments 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 September 30, 2011 we manage \$72,061,154.49 in client assets on a discretionary basis, and \$4,184,021.14 in client assets on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### **Portfolio Management Services**

Our fee for portfolio management services is based on a percentage of your assets we manage up to 2.90%. Our fee may be negotiable, depending on individual client circumstances. Our fee is billed in accordance with the policies and procedures of the custodian with whom the account is held. Our fee will vary depending on the particular investment adviser representative managing your account and may be higher or lower than other clients pay for similar services. Separate account managers charge a separate fee that is in addition to our fee. Fees associated with programs available through our Separate Account Management Platforms may be higher or lower than the same or similar program offered directly through a Separate Account Manager. The total fee and fee-paying arrangements will be clearly set forth in the Investment Management Agreement you sign with our firm.

Depending on the account custodian, accounts may be billed either in advance or in arrears, on a quarterly, monthly, or daily basis. You should refer to your account opening documents for information on the total fee you will pay and the billing process applicable to your specific account(s). If the portfolio management agreement is executed at any time other than the first day of a billing period, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the billing period for which you are a client.

We will send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts.

Either party may terminate the agreement upon 30 days' written notice to the other party. The management fee will be pro-rated for the billing period in which you give cancellation notice. We will refund any unearned fee to you.

### **Financial Planning Services**

We charge either a fixed or an hourly fee for financial planning services. The fee is negotiable depending upon the complexity and scope of the plan, your financial situation, and your objectives. The scope of these services, the fees, and the terms of the agreement for these services will be negotiated on a case-by-case basis with each client. The fee for our Open Retainer Program is based on a fixed annual amount, determined at the beginning of the engagement and is payable quarterly. Fees will be recalculated annually upon renewal.

Either party may terminate the agreement upon written notice to the other party. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

### **Selection of Other Advisers**

We do not charge you a separate fee for the selection of other advisers. We will share in the advisory fee you pay directly to the TPA. The advisory fee you pay to the TPA is established and payable in accordance with the brochure provided by each TPA to whom you are referred. These fees may or may not be negotiable. Our compensation may differ depending upon the individual agreement we have with each TPA. As such, a conflict of interest may arise where our firm or persons associated with our firm may have an incentive to recommend one TPA over another TPA with whom we have more favorable compensation arrangements or other advisory programs offered by TPAs with whom we have less or no compensation arrangements.

You will be required to sign an agreement directly with the recommended TPA(s). You may terminate your advisory relationship with the TPA according to the terms of your agreement with the TPA. You should review each TPA's this brochure for specific information on how you may terminate your advisory relationship with the TPA and how you may receive a refund, if applicable. You should contact the TPA directly for questions regarding your advisory agreement with the TPA.

### **Pension Consulting Services**

The scope of the services, the fees, and the terms of the agreement for these services will be negotiated on a case-by-case basis with each client depending on the complexity of the plan and the agreement with the client. Typically, the fees will be based on our hourly rate plus our expenses. Our maximum hourly rate is \$450 per hour. Fees are due as invoiced. The terms regarding payment of fees, termination, and refund will be clearly set forth in the agreement executed between our firm and the client.

Either party may terminate the agreement upon 30-day written notice to the other party. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

### **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.

We may trade client accounts on margin. Each client must sign a separate margin agreement *before* margin is extended to that client account. Fees for advice and execution on these securities are based on the total asset value of the account, which includes the value of the securities purchased on margin.

While a negative amount may show on a client's 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 we 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.

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

Our firm is also a broker-dealer and persons providing investment advice on behalf of our firm may be registered representatives with our firm. In their capacity as registered representatives, these persons may 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. Furthermore, persons providing investment advice to you are not permitted to earn commissions for two years on securities for which we charge an advisory fee. After the two-year period, the value of the security will be added to the value of your total assets for billing purposes.

Persons providing investment advice on behalf of our firm may also be licensed as insurance agents. These persons 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.

In our capacity as a broker/dealer, our primary source of income is derived from commission-based compensation from the sale of investment products we recommend to our clients.

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

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 on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

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

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

To open and maintain a portfolio management account, we generally require that you represent and warrant that either (a) the value of your account initially is at least \$100,000, or (b) your net worth, which may include assets held jointly with your spouse, is more than \$500,000. At our discretion, we may accept clients with smaller accounts and/or lower net worth.



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

### **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:

- Charting Analysis – involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict future price movements based on price patterns and trends.
- 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.
- Technical Analysis – involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.
- Cyclical Analysis – a type of technical analysis that involves evaluating recurring price patterns and trends.
- 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.
- Short Term Purchases – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.
- Short Sales – a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price.
- Margin Transactions – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.
- Options Writing – a securities transaction that involves selling options. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The buyer pays the seller a premium (the market price of the option at a particular time) in exchange for the seller writing the option.

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.

*Charting, Fundamental, and Technical Analysis:* The risk of market timing based on charting and technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy. 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. The risk of cyclical analysis is that economic/business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

*Frequent Trading:* We may use investment strategies that involve buying and selling securities frequently in an effort to capture significant market gains and avoid significant losses during a volatile market. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.

*Short-Term Purchases:* We may use short-term purchases as a core investment strategy. Using a short-term purchase strategy generally assumes that we can predict how financial markets will perform in the short-term which may be very difficult and will incur a disproportionately higher amount of transaction costs compared to long-term trading. There are many factors that can affect financial market performance in the short-term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of times.

*Short Sales:* Where appropriate given your stated investment objectives and tolerance for risk, we may recommend and manage portfolios consisting of short leveraged ETFs, options, and margin. Clients participating in these types of portfolios will receive additional disclosure information regarding the risks involved with these types of investments. Short selling is very risky. Unlike a straightforward investment in stocks where you buy shares with the expectation that their price will increase so you can sell at a profit, in a "short sale" you borrow stocks from your brokerage firm and sell them immediately, hoping to buy them later at a lower price. Thus, a short seller hopes that the price of a stock will go down in the near future. A short seller thus uses declines in the market to his advantage. He makes money when the stock prices fall and loses when prices go up. The SEC has strict regulations in place regarding short selling. There is no ceiling on how much a short seller can lose in a trade. The share price may keep going up and the short seller will have to pay whatever the prevailing stock price is to buy back the shares. However, his gains have a ceiling level because the stock price cannot fall below zero. A short seller has to undertake to pay the earnings on the borrowed securities as long as he chooses to keep his short position open. If the company declares huge dividends or issues bonus shares, the short seller will have to pay that amount to the lender. Any such occurrence can skew the entire short investment and make it unprofitable. The broker can use the funds in the short seller's margin account to buy back his loaned shares or issue a 'call away' to get the short seller to return the borrowed securities. If the broker makes this call when the stock price is much higher than the price at the time of the short sale, then the investor can end up making huge losses.

*Margin:* Buying on margin means borrowing money from a broker to purchase stock. Margin trading allows you to buy more stock than you'd be able to normally. An initial investment of at least \$2,000 is required for a margin account, though some brokerages require more. This deposit is known as the minimum margin. Once the account is opened and operational, you can borrow up to 50% of the purchase price of a stock. This portion of the purchase price that you deposit is known as the initial margin. Some brokerages require you to deposit more than 50% of the purchase price. Not all stocks qualify to be bought on margin. When you sell the stock in a margin account, the proceeds go to your broker against the repayment of the loan until it is fully paid. There is also a restriction called the maintenance margin, which is the minimum account balance you must maintain before your broker will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. If for any reason you do not meet a margin call, the brokerage has the right to sell your securities to increase your account equity until you are above the maintenance margin. Additionally, your broker may not be required to consult you before selling. Under most margin agreements, a firm can sell your securities without waiting for you to meet the margin call and you can't control which stock is sold to cover the margin call. You also have to pay the interest on your loan. The interest charges are applied to your account unless you decide to make payments. Over time, your debt level increases as interest charges accrue against you. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The longer you hold an investment, the greater the return that is needed to break even. In volatile markets, prices can fall very quickly. You can lose more money than you have invested.

*Options: Options are complex securities that involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital.* An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the "expiration date"). The two types of options are calls and puts:

A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

Selling options is more complicated and can be even riskier.

The option trading risks pertaining to options buyers are:

- Risk of losing your entire investment in a relatively short period of time.
- The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration.
- Specific exercise provisions of a specific option contract may create risks.
- Regulatory agencies may impose exercise restrictions, which stops you from realising value.

The option trading risks pertaining to options sellers are:

- Options sold may be exercised at any time before expiration.
- Covered Call traders forgo the right to profit when the underlying stock rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.
- Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- Writers of Naked Puts risk unlimited losses if the underlying stock drops.
- Writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker.
- Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- The complexity of some option strategies is a significant risk on its own.
- Option trading exchanges or markets and option contracts themselves are open to changes at all times.
- Options markets have the right to halt the trading of any options, thus preventing investors from realizing value.

- Risk of erroneous reporting of exercise value.
- If an options brokerage firm goes insolvent, investors trading through that firm may be affected.
- Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include: market risk, sector risk and individual stock risk. Option trading risks are closely related to stock risks as stock options are a derivative of stocks.

*Tax Implications:* Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

#### 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 recommend many types of securities and we do not necessarily recommend one particular type of security over another 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.

Where appropriate, we may recommend and manage portfolios consisting of short leveraged ETFs, options, and margin. Clients participating in these types of portfolios will receive additional disclosure information regarding the risks involved with these types of investments.

When reviewing your investment objectives, we may recommend an investment in a Limited Partnership or similar type product (REITS). At that time, we explain in writing and discuss with you the differences in the investment process, and risk profile between an individually managed account and the partnerships. We will not charge any commissions for the purchase of these products if purchased under the management agreement.

## Item 9 Disciplinary Information

We are required to disclose to you all material facts regarding any legal or disciplinary events that are material to your evaluation of our advisory business or the integrity of our management. Certain legal and disciplinary events occurring within the previous ten years are presumptively material. Our legal and disciplinary events are reported publically online via FINRA's BrokerCheck website. For information regarding all of our reported legal and disciplinary events, please refer to FINRA's BrokerCheck website at <http://brokercheck.finra.org>. You may search for our firm by name or by our CRD number, which is 20999.

## Item 10 Other Financial Industry Activities and Affiliations

### Registration as Broker-Dealer

In addition to being registered as an investment adviser, our firm is also registered as a broker-dealer and is a member FINRA and SIPC. As an introducing broker, we engage in retail securities transactions for investment advisory and non-investment advisory clients, along with certain other activities normally associated with a broker dealer. Our principal business is the sale of securities.

Persons providing investment advice on behalf of our firm may be registered representatives with our firm. Please refer to the "Fees and Compensation" section above for more information.

### Insurance Producer

In addition to being registered as an investment adviser and broker/dealer, our firm is also licensed as an insurance producer which allows us to offer insurance products from a variety of product sponsors. Persons providing investment advice on behalf of our firm may be licensed as insurance agents. These persons 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. Please see the "Fees and Compensation" section in this brochure for more information on the compensation received by insurance agents who are affiliated with our firm.

### Recommendation of Other Advisers

We may recommend that you use a third party adviser ("TPA") based on your needs and suitability. We will receive compensation from the TPA for recommending that you use their services. These compensation arrangements present a conflict of interest because we have a financial incentive to recommend the services of the third party adviser. You are not obligated, contractually or otherwise, to use the services of any TPA we recommend.

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

### 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 persons associated with our firm. 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 persons associated with our firm 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**

It is our policy that neither our firm nor any persons associated with our firm have 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 securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the "Brokerage Practices" section in this brochure for information on our block trading practices. 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 firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

## **Item 12      Brokerage Practices**

While you are free to choose any broker-dealer or other service provider, we may recommend the brokerage and custodial services of Interactive Brokers, TD Ameritrade, Trust Company of America, Fidelity, National Financial Services, and Fidelity Institutional Wealth Services, among others. In recommending a broker-dealer, we will endeavor to select those brokers or dealers that will provide the best services at the lowest commission rates possible. Price is not the sole factor we consider in evaluating best execution. We also consider the broker's ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, and other services. In recognition of the value of research services and additional brokerage products and services the recommended broker-dealer/custodian provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

If you have engaged the services of a third party investment adviser, participate in a Separate Account Manager program, or participate in the Separate Account Management Platform as described under the "Advisory Services" heading above, you will be required to use the brokerage and/or custodial services of firms used by the Separate Account Manager, Separate Account Management Platform, or the third party investment adviser.

We may also recommend that you use our firm's brokerage facilities, through Southwest Securities, Inc. We suggest our brokerage facilities because of our execution capability through Southwest Securities, Inc., competitive commission rates, and to facilitate the trading and management of clients' accounts by having the majority of client accounts resident at same brokerage firm.

### **Research and Other Benefits**

We may receive certain benefits from recommended broker-dealer/custodians. These benefits do not depend on the amount of transactions we direct to the broker-dealer/custodian. These benefits may include: A dedicated trading desk that services our clients, a dedicated service group and an account services manager dedicated to our accounts, access to a real time order matching system, ability to block client trades, electronic download of trades, balances and positions in the broker-dealer/custodian's portfolio management software, access to an electronic interface with broker-dealer/custodian's software, duplicate and batched client statements, confirmations and year-end summaries, and the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements.)

We participate in the institutional advisor program (the “Program”) offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (“TD Ameritrade”), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade through its participation in the Program. We may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice it gives to our clients, although we receive economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our related persons. Some of the products and services made available by TD Ameritrade through the program may benefit us but may not benefit its client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop its business enterprise. The benefits received by us or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, we endeavor at all times to put the interests of its clients first. You should be aware, however, that the receipt of economic benefits by our firm or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

### **Directed Brokerage**

You may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts. This practice may also prevent our firm from obtaining favorable net price and execution, negotiating commissions, obtaining volume discounts. Under these circumstances, you may pay higher commission charges than our other clients. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

We combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as “block trading”). We will combine orders for accounts held at the same custodian only. When block trading, we will distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions.

When we combine orders, each participating account pays an average price execution price for all transactions and pays a proportionate share of the total transaction costs. Accounts traded at different custodians will typically receive different prices. In situations where a block order is only partially filled by the executing broker-dealer, we allocate the order to all participating accounts on a *pro rata* basis.

Aggregated orders may include transactions for registered investment companies, employee benefit plans and private investment vehicles (e.g. limited partnerships or limited liability companies) in which our



principals or employees are among the investors; however, these accounts will not be given preferential treatment.

### Item 13      Review of Accounts

All portfolio management accounts are monitored by the investment adviser representative assigned to the account either on an ongoing or periodic basis as agreed upon with the client. We recommend quarterly verbal progress reports and annual written progress reports, depending on our specific arrangement with you. You may request a verbal or written report at any time. Additionally, all accounts will be monitored under current FINRA/SEC Broker-Dealer guidelines. Spot checks will occur by any member of the investment committee. The initial investment advisory account form will be approved by a principal of the company.

Before an investment advisory account can be opened, a member of the investment committee must verify the investment advisory account information and approve any recommended advice based in the information provided by the client. One of Dwayne K. Calton-President, Dominick Calderazzo - Associate or Robert B. Greblunas-Vice-President, or their designees, reviews transactions in each Client account on an ongoing basis and conducts account reviews annually.

We generally do not provide you with additional or regular written reports in conjunction with account reviews. You will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

### Item 14      Client Referrals and Other Compensation

As disclosed under the "Fees and Compensation" section in this brochure, persons providing investment advice on behalf of our firm may be licensed insurance agents and registered representatives. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the "Fees and Compensation" section.

We directly compensate non-employee (outside) consultants, individuals, and/or entities (Solicitors) for client referrals. In order to receive a cash referral fee from our firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this brochure along with the Solicitor's disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will typically receive either a percentage of the advisory fee you pay our firm for as long as you are a client with our firm or until such time as our agreement with the Solicitor expires, or a one-time, flat referral fee upon your signing an advisory agreement with our firm or some alternative arrangement. You will not pay additional fees above our stated rates and minimums because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

Solicitors that refer business to more than one investment adviser may have a financial incentive to recommend advisers with more favorable compensation arrangements. We request that our Solicitors disclose to you whether multiple referral relationships exist and that comparable services may be available from other advisers for lower fees and/or where the Solicitor's compensation is less favorable.



## Item 15 Custody

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.

If you have a question regarding your account statement, or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

## Item 16 Investment Discretion

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a power of attorney, and/or trading authorization forms. 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. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. 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.

## Item 17 Voting Client Securities

In certain circumstances, and in accordance with each client's specific advisory agreement, we will vote proxies related to securities held by the client in a manner that is in the best interest of the client. We will consider only those factors that relate to the client's investment(s) or that are established by the client's written instructions. Such factors will include how its vote will economically impact and affect the value of the client's investment (keeping in mind that, after conducting an appropriate cost-benefit analysis, not voting at all on a presented proposal may be in the best interest of the Client.)

In general, we cast proxy votes in accordance with the following principles:

- Votes will at all times be directed toward maximizing the value of the client's investment as an owner;
- We generally vote against any proposal that is likely to dilute the value of an issuer's common stock. Examples of such items would be restrictions against cumulative voting, establishment of

different classes of stock, or any activity that could be viewed as a “poison pill” maneuver.

- On other matters specific to a company, such as election of directors, appointment of auditors, granting and repricing of options, mergers and other material issues, a decision shall be made in conjunction with the primary analyst responsible for evaluating that company, consistent with the policy of maximizing value. We evaluate company management before deciding to own a security and gives weight to management recommendations on material issues with the goal of maximizing shareholder value over the long term.
- The same security will be voted identically across all similarly situated client accounts except for the Socially Responsible Investing accounts, (SRI), which may cast individual ballots not identically.

In voting on each and every issue, we will vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot.

In exercising its voting discretion, we will avoid any direct or indirect conflict of interest raised by such voting decision. If the Chief Investment Officer believes that there is any potential material conflict of interest for the firm on a particular proxy vote, it is to be turned over to the Investment Oversight Committee for the voting decision.

In the event you wish to direct our firm on voting a particular proxy, you should contact your representative, at the phone number listed on the cover page of this document, with your instruction. We do not accept instructions via Email.

We keep certain records required by applicable law in connection with our proxy voting activities. You may obtain information on how we voted proxies and/or obtain a full copy of our proxy voting policies and procedures by making a written or oral request to our firm.

## Item 18 Financial Information

Our firm does not have any financial condition or impairment 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 \$1,200 in fees six or more months in advance nor have we filed a bankruptcy petition at any time in the past ten years. Therefore, we are not required to include a financial statement with this brochure.

## Item 20 Additional Information

### Your Privacy

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, portfolio managers, technology firms, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone.

We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

**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.

**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.

If we receive written or electronic notice of a class action lawsuit, settlement or verdict affecting securities you own, we will forward all notices, proof of claim forms and other materials, to you. Electronic mail is acceptable where appropriate, and you have authorized contact in this manner.