

**Item 1 | Cover Page**



**Form ADV Part 2A: Firm Brochure**

Date of Brochure: December 31, 2019

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CRD No.: 112923  
SEC File No.: 801-50373

This brochure provides information about the qualifications and business practices of Sterling Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 520.293.3311. 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 Sterling Investment Management, Inc is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. Additional information about Sterling Investment Management, Inc. "Sterling" is available via website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Sterling who are registered, or are required to be registered, as investment adviser representatives of Sterling.

Sterling Investment Management, Inc. shall be referred to "Sterling," "the Registrant," "the Firm", "our", or "we" throughout the remainder of this document.

**Item 2 | Material Changes**

Since the last annual update of our Firm Brochure dated December 31, 2018, we have made updates to the following Items of our brochure:

**Item 4 | Advisory Business***D. Assets Under Management as of December 31, 2019*

Discretionary Assets	\$316,168,998
Non-Discretionary Assets	\$0
Total Assets	\$316,168,998

Currently, our Brochure may be requested from our office at [ckelly@sterlinginvestor.com](mailto:ckelly@sterlinginvestor.com) or at our website [www.SterlingInvestmentManagement.com](http://www.SterlingInvestmentManagement.com).

Additional information about Sterling Investment Management, Inc. is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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**Item 4 | Advisory Business***A. Firm Information*

Sterling Investment Management, Inc. (the “Registrant”) is an SEC-registered investment advisor. Founded in November 1995, we provide sophisticated portfolio management services to high net worth individuals, endowments, foundations, and corporations located throughout the United States.

John H. Payne, CFA is currently the sole principal owner, President, and Chief Investment Officer of Sterling Investment Management, Inc.

Sterling is 100% employee owned and is organized as an S-Corp in the State of Arizona. The company has been in continuous operation since inception.

*B. Advisory Services Offered*Introduction

Sterling Investment Management, Inc. (“Sterling,” “the Registrant,” “the Firm”, “our”, or “we”) is an independent research-driven investment management boutique. Using a meticulous security analysis framework rooted in value investing, we provide our clients with long-term investment strategies designed to complement their unique financial goals by utilizing our structured approach to portfolio management. Our investment portfolios predominately consist of individual equity, fixed income, and alternative securities.

Investment Management

Sterling provides clients with ongoing investment advisory services on a fee-only basis. Portfolios may include the common equity, preferred stock, and debt of domestic and international companies, municipal and private-placement debt securities, REITs, MLPs, and alternative assets. In addition, Exchange Traded Funds (ETFs) may be implemented for risk hedging purposes, or to satisfy unique client investment objectives.

Each portfolio is individually customized to align with our clients’ financial goals. All security selection and asset allocation decisions are predicated upon each client’s risk tolerance, time horizon, and unique financial and investment goals.

Portfolios are constructed with the following underlying goals: maximize total returns while assuming an appropriate level of risk.

Sterling approaches securities analysis from the perspective of a business owner; the firm seeks to hold positions in businesses that have high probabilities of generating attractive returns on invested capital over a long-term time horizon.

Investment management services are performed on a discretionary basis. Investment guidelines and restrictions must be provided to us in writing. For more information on Sterling's discretionary and non-discretionary asset management practices see Item 16 – Investment Discretion.

### Financial Planning

Sterling provides consultation services involving the analysis of a client's financial situation. This commonly takes the form of a financial plan but may solely focus on a topic such as Retirement Planning, College Planning, or Cash Flow Analysis.

In preparing a financial plan for a Client, Sterling gathers information through personal interviews and document requests. Should a Client implement the recommendations contained in the financial plan, Sterling suggests that the Client work closely with his or her attorney and/or accountant and share the recommendations. Consulting Services may be charged on an hourly basis of \$500/hr. or as a flat fee but are usually covered under the Investment Advisory Fee for clients that have assets under our management.

### *C. Wrap Fee Programs*

The Registrant does not place client assets with any wrap fee programs. All management services are performed by the Registrant on behalf of its clients.

### *D. Assets Under Management*

As of December 31, 2019, Sterling's Assets Under Management are as follows:

Discretionary Assets	\$316,168,998
Non-Discretionary Assets	\$0
Total Assets	\$316,168,998

**Item 5 | Fees and Compensation***A. Fees for Advisory Services*

Effective fee schedule for investment management services based on client's total assets under management applicable to all clients:

Asset market values up to	\$ 2,000,000	1.00 %
Market values of	\$ 2,000,000 to \$ 5,000,000	0.95 %
Market values of	\$ 5,000,000 to \$ 7,500,000	0.90 %
Market values of	greater than \$ 7,500,000	(Negotiated)

Sterling generally requires an annual minimum fee of \$10,000 for investment advisory services. Each written client agreement with Sterling establishes the agreed-upon fee schedule. Sterling's annual investment advisory fee shall be paid quarterly, in advance. Quarterly investment management fees are calculated using daily market values for each respective account averaged over the prior three-month period, less non-supervised assets. Account market value data are imported from the client's third-party custodian into our portfolio management system where the fees are then calculated. Sterling urges clients to carefully verify the accuracy of fee calculations using the balance provided by the custodian on their brokerage statement. Sterling requires a minimum investment portfolio(s) of \$500,000 per client household but this minimum may be waived under certain situations. Some clients may be billed at a fixed amount due to special circumstances, including but not limited to the type of investment or financial planning work being conducted by our firm. Each account may be subject to a minimum annual fee. Specific client circumstances and certain exceptions may apply.

Fee schedules and minimum account size may be negotiable. Fees may vary from the current fee schedules listed above due to certain circumstances of the client, the type of investment or investment management services provided, or as otherwise negotiated. Examples of these circumstances can include the account inception date, the existence of other accounts managed by Sterling, account size, minimum annual fee and/or as otherwise negotiated. Discounts not generally available to our advisory clients may be offered to family members or associated persons of our firm.

With client authorization, Sterling may deduct the advisory fee from the client's account by directly billing the client's custodian. Each fee payment deducted from the client's custodial account is reported on the client's account statement prepared by and sent from the client's custodian.

Sterling's advisory fees are exclusive of brokerage commissions, custodial fees, transaction fees, legal fees, accounting fees, and other related costs and expenses. Some examples of these fees include broker-traded commissions, trust and custodial expenses, attorney and estate fees, account and tax preparations fees, settlement fees, sales charges, transfer taxes, foreign taxes, wire transfer and electronic funds transfer fees, and other fees and taxes on security transactions and custodial accounts. Additionally, mutual funds, exchanged traded funds and exchange traded notes charge internal management fees that are disclosed in each fund's prospectus. All such charges, fees, and commissions are exclusive of and in addition to Sterling's advisory fee.

ERISA Accounts: The firm is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, our firm may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and/or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset the firm's advisory fees.

Sterling charges its quarterly advisory fees in advance, as described above. In the event a client or the firm should terminate the investment management contract and if it is determined that a refund is due to the client, a check will be issued payable to the account registration and mailed to the address of record. The refund amount will be calculated by prorating the fee for the number of days remaining in the current billing period. Sterling is under no obligation to repay any fees billed and paid by the client prior to any written termination notices from the client.

#### *B. Fees for Other Professional Services*

For services that fall outside of Sterling's normal advisory agreements, Sterling may charge an hourly rate fee for other professional advisory services. The hourly rate is \$500 per hour and is calculated by rounding up to the next full hour of services provided.

#### *C. Compensation for Sale of Securities by Supervised Persons*

The Registrant does not receive any compensation for securities transactions.

**Item 6 | Performance-Based Fees and Side-By-Side Management***A. Performance-Based Fees*

Sterling does not currently charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

*B. Side-By-Side Management*

Sterling is not currently involved in any Side-By-Side Management agreements.

**Item 7 | Types of Clients**

Sterling provides investment management services to a variety of client types. Clients include but are not limited to high net-worth individuals, trusts, estates, corporations, pension and profit-sharing plans, charitable institutions, foundations, and endowments. We require a minimum investment portfolio(s) of \$500,000 per client household but this minimum may be waived under certain situations.

**Item 8 | Methods of Analysis, Investment Strategies, and Risk of Loss***A. Methods of Analysis*Equities, Fixed-Income, and Alternative Investments:

Sterling's investment process combines top-down macroeconomic analysis with disciplined, fundamental security research to structure and manage investment portfolios. Portfolio holdings are comprised of individual securities from a wide range of asset classes. Sterling's investment strategies broadly encompass equity, fixed income, and alternative investments.

Equity Management:

Our equity investment philosophy is to maximize the total returns in our investment portfolios while assuming reasonable measures of risk. Sterling approaches securities analysis from the perspective of a business owner. We seek to own a fractional interest in a business that has a very high probability of generating attractive returns on our invested capital over a long-term time horizon.

Our equity investment process follows five main principles:

1) Invest for the long term. We are long-term investors. Continuous compounding of returns on capital provides our portfolios with the highest probability of creating and building wealth. We also seek to capitalize on market inefficiencies created by short-term price volatility.



2) Search for businesses that possess competitive advantages relative to their peers. Organizations that maintain a sustainable competitive advantage relative to their peers have an opportunity to expand their market presence, increase relative prices, and dominate the cost structures of their respective businesses and industries.

3) Identify companies that have strong financial characteristics. Free cash flow generation is a key metric of our investment process. Businesses that produce high levels of free cash flow generally exhibit other favorable characteristics such as: top line revenue growth, consistent earnings growth, and high returns on equity capital.

4) Invest with companies that have capable, reliable managers. We prefer to invest with corporate managers that treat shareholders as owners. These management teams need to have defined business objectives and strategies to implement their business plans.

5) Pay a reasonable price. Investments are predicated upon purchasing corporate securities at a discount to our appraisal of their intrinsic value.

Equity portfolios may also include a percentage of individual securities that have unique financial characteristics designed to enhance total portfolio performance and risk diversification.

#### Fixed Income Management:

Our fixed income security analysis extends and complements the principals we follow in our equity investment process. In general, high quality securities of short-term to intermediate term maturities tend to offer better values, along with lower principal volatility, than issues that have longer dated maturity obligations.

Sterling's fixed income investment strategies combine interest rate projections and sector swaps to improve and enhance total asset returns. In addition, providing a dependable stream of current income is a very important total return component for our client's financial and business planning process.

#### Alternative Investment Management:

Depending on each client's investment objectives, options and short selling strategies may provide portfolio diversification and risk reduction. We believe that diversification into these alternative strategies helps to smooth returns, reduce volatility and decrease asset-class risks.

#### *B. Investment Strategies*

**CAPITAL APPRECIATION:** Seeks long term capital appreciation by investing primarily in equity securities but may hold fixed income and other securities to preserve principal value.

**BALANCED:** Seeks to provide capital growth, current income, and capital preservation through an equal weighted portfolio of equity and fixed income securities. Portfolios may also hold other securities.

**CURRENT INCOME:** Seeks to provide current income and capital preservation, by investing primarily in fixed income securities, but may hold equity securities and other securities to grow principal value.

**FIXED INCOME:** Seeks long-term capital preservation and income by investing exclusively in fixed income securities, including corporate, government, municipal, and structured bonds. May hold cash equivalents.

### *C. Risk of Loss*

#### Risk Management:

Investing in securities involves risk of loss that clients should be prepared to bear. Securities prices fluctuate and may decline in response to actual or perceived developments at individual companies, within industries or sectors, or general economic conditions. If the value of investments in your portfolio declines, you could lose money.

Some of the material risks when investing in stocks include the possibility that equity prices will decline. Stock markets tend to move in cycles. Foreign stocks are subject to the possibility that world events and events in their home country (political, financial, or natural disasters) will adversely affect their price. Fluctuations in the foreign exchange rate of the U.S. dollar could also have a negative impact on foreign stocks.

Bond investments are subject to the possibility that bond prices will decline due to rising interest rates. If interest rates fall, income generated from fixed income investments may also fall. Bonds are also subject to credit risk, which is the possibility that the bond issuer will be unable to make interest or principal payments, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Foreign debt instruments are subject to currency risk. If a bond is callable, any price appreciation above the bonds' call price could be lost, which could result in reinvesting the unanticipated proceeds at lower interest rates.

Additional risk factors include, but are not limited to:

- General Economic and Market Conditions
- Risks Inherent to the Registrant's Investment Strategies
- Terrorist Attacks and Associated Acts of War

- Risks Inherent to Investing in Capital Markets
- Counterparty Risk
- Short Selling Risk
- Margin Risk
- Risks Associated with Concentrated Portfolios
- Potential Failure of Risk Management Guidelines
- Default Risk
- Interest Rate Risk

**Item 9 | Disciplinary Information**

Sterling has never been involved in, nor does it have, any firm or individual disciplinary disclosures to make.

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

Sterling is not involved in any other Financial Industry Activities.

**Item 11 | Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***A. Code of Ethics*

Sterling has implemented a Code of Ethics that details standards of conduct for the firm's personnel. Topics covered include the Registrant's fiduciary duty to its clients, standards of professionalism, ethical guidelines, and sets forth rules regarding personal trading by employees, initial public offerings, and private placements. In addition, the Code of Ethics sets forth procedures relating to the distribution of the Code of Ethics, review and enforcement processes, amendments to Form ADV, and supervisory procedures. Sterling's policy is to not engage in any agency cross transactions, or any principal transactions.

*B. Personal Trading and Participation in Client Transactions*

The Registrant or its employees may purchase or sell for themselves similar or different securities as are recommended to Sterling's clients. Sterling has implemented an investment policy relative to personal securities transactions of its employees. This investment policy is part of Sterling's overall Code of Ethics, as described above, which serves to establish a standard of business conduct for all of Sterling's supervised persons. Sterling's personal trading policy is based upon fundamental principles of openness, integrity, honesty and trust. To prevent conflicts of interest, all personal trades made by Sterling's employees are reviewed by supervisory personnel. Additionally, Sterling's

policies and procedures prohibit the misuse of material nonpublic information and are designed to prevent insider trading by any employee.

### *C. Interest in Client Transactions*

Sterling may recommend that its clients invest in private investment limited liability corporations if the account is non-ERISA and such investment is suitable to the client. Prior to recommending such investment, Sterling will confirm that the client is an “accredited investor” as defined in Rule 501(a) of Regulation D under The Securities Act of 1933 as amended, and if applicable, the client is a “qualified client” as defined in Rule 205-3 under the Act of 1940, as amended.

John H. Payne, CFA is a minority member of eight (8) private investment limited liability corporations. The limited liability corporations are comprised of a small number of accredited investors, some of which are also clients of Sterling.

Please note that private investment vehicles generally involve various risk factors and liquidity constraints. A complete discussion of the aforementioned is detailed in each private vehicle’s offering documents, which will be provided to each client for review and consideration.

## **Item 12 | Brokerage Practices**

### *A. Soft Dollars*

In return for offering securities transactions through a broker-dealer, Sterling may receive investment research products or services which assist in the investment decision-making process for all clients, pursuant to Section 28(e) of the Securities Exchange Act of 1934 (generally referred to as a “soft dollar” arrangement). Conflicts of interest between clients and the firm are possible when soft dollars are used to acquire products or services that are not exclusively benefiting the client who paid the commission. Trades for ERISA client accounts do not participate in commission based soft dollar arrangements.

Sterling’s procedure for directing clients’ transactions to a particular broker-dealer in return for soft dollar benefits is consistent with Sterling’s best execution policies, (see Item 12, C.), CFA Institute’s Soft Dollar Standards, and section 28(e) of the Securities Exchange Act of 1934. Sterling may engage in soft dollar arrangements if the firm determines in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker in terms of Sterling’s responsibilities to its clients. When Sterling engages in a soft dollar transaction, the soft dollar benefits may be used to offset the cost the firm incurs on certain services, including: research data on particular industries and companies, economic survey and analysis, quote services, trade execution systems, order management systems, and computer-related

costs. Such products and services provide lawful and appropriate assistance to Sterling in the performance of its investment responsibilities for its clients.

Charles Schwab & Co.

Sterling currently prefers to maintain a custodial relationship primarily with the Institutional Services division of Charles Schwab & Co. (Schwab). In connection with the Schwab relationship, Sterling receives certain benefits, including, but not limited to: custodian/adviser interface software, certain practice management software and resources, marketing support, trade desk access, and block trading capabilities. This relationship is subject to change if it is determined to be in the best interests of Sterling's clients.

Additionally, Sterling may receive the following benefits from Schwab Institutional: receipt of duplicate client confirmations and bundled duplicate statements, access to a trading desk that exclusively services its institutional clients, access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts, and access to an electronic inventory and communication network for client order entry and account information.

Client accounts may not benefit equally from services or products received via these soft dollars. These benefits may create a conflict of interest between Sterling and clients since these benefits may influence Sterling's choice of a broker-dealer over another that does not furnish similar software, systems support, or services. Products and services received by Sterling via soft dollars are standard to all advisers utilizing Schwab.

*B. Aggregate, or Block, Trade Allocations*

In placing its orders to purchase or sell securities in client accounts, Sterling may elect to aggregate orders. Sterling will not aggregate transactions unless aggregation is consistent with the duty to seek Best Execution. As a matter of policy, Sterling's trade allocation procedures must be fair and equitable to all clients. Sterling will use average pricing to achieve fair and equitable executions. Ordinarily, the executing broker-dealer will provide an average price that will be allocated to all accounts participating in the aggregated trade. Because of prevailing market conditions, it may not be possible to execute all shares of an aggregated trade, in which case Sterling will allocate the trade among participating accounts in an equitable manner determined prior to execution of the trade.

*C. Brokerage Partners and Best Execution*

In selecting brokers-dealers, and determining the reasonableness of commissions and mark-ups charged, Sterling will attempt to effect securities transactions for clients in such a manner that the clients receive the highest quality transaction, under the circumstances.

This is known as Best Execution. In selecting broker-dealers, Sterling need not solicit competitive bids and does not have an obligation to seek the lowest available transaction cost (e.g., commission cost).

The determinative factor is whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services including execution capability, commission rates, and responsiveness. Accordingly, although Sterling will seek competitive commission rates, it may not necessarily obtain the lowest possible rates for account transactions.

Sterling may consider several factors in utilizing brokers-dealers for client brokerage transactions. Among the factors considered by Sterling are:

- Transaction net costs
- Security price
- Clearance and settlement practices
- Ease of execution
- Firm commitment to regulatory compliance
- Industry reputation
- General financial strength and stability
- Breadth of products and services
- Research capabilities

Clients may request, in writing, that Sterling use a particular broker-dealer to execute some or all transactions for the client's account with the understanding that Sterling has the right to decline and/or terminate the engagement with the broker. In such event, the client will negotiate terms and arrangements for the account with that broker-dealer, and Sterling will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Sterling. As a result, the client may pay higher commissions or other transaction costs or greater spreads or receive less favorable net prices on transactions for the account than would otherwise be the case.

In the event the client directs Sterling to initiate securities transactions for that client's accounts through a specific broker-dealer, the client also acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur than if the client determined to utilize Sterling's available alternative clearing arrangements.

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

### *A. Frequency of Reviews*

Sterling performs reviews of all investment advisory accounts and portfolio holdings no less than quarterly. Investment portfolios are reviewed for consistency with the investment strategy and performance.

### *B. Causes for a Review*

In addition to the monitoring described above, reviews may be triggered by changes in a client's tax or financial status. Macroeconomic and issuer specific events may also trigger reviews.

### *C. Review Reports*

#### Investment Advisory Reports

Brokerage statements for each individual account are generated by the custodian no less than quarterly. These statements are sent directly to each client from the custodian. Client account statements list the account positions, activity in the account over the covered period, and other related information. Clients are provided confirmations following each brokerage account transaction. In addition, clients may request to receive account statements from Sterling on a monthly or quarterly basis. Sterling may also provide performance reports, realized gain and loss, income and expense, or other reports as requested. Sterling's reports are reconciled to the custodian's reports and we highly encourage clients to review and compare our reports to those provided by the custodian. Sterling retains sole discretion to approve or deny a request for more frequent statements.

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

Sterling may refer clients to various third parties to provide certain services necessary to meet financial goals. Likewise, Sterling may receive a client referral from a third party. In either case, no compensation is given or received. All referrals are a professional courtesy and in the interest of the client.

*A. Compensation Received by Sterling*

Sterling does not receive any compensation from third parties in exchange for referral of business. Except as otherwise disclosed in Item 12, Sterling is compensated exclusively by clients.

Although not a material consideration when determining whether to recommend a client to utilize the services of a particular broker-dealer/custodian, Sterling may receive from the custodian, Schwab, without cost (and/or at a discount) support services and/or products. Some of those support services or products assist Sterling to better monitor and service client accounts maintained at such institutions.

Included within the support services that may be obtained by Sterling may be:

- Investment-related research
- Pricing information and market data
- Software and other technology that provide access to client account data
- Compliance and/or practice management-related publications
- Discounted consulting services
- Discounted attendance at conferences
- Meetings, and other educational and/or social events
- Marketing support
- Computer hardware and/or software and/or other products used by Sterling to improve its investment advisory business operations

As indicated above, certain support services and/or products which are potentially available to Sterling may also assist Sterling in managing and administering client accounts. Other products and services do not directly provide such assistance, but rather assist Sterling to manage and further develop its business enterprise. Sterling's clients do not pay more for investment transactions completed with Schwab and/or assets maintained at Schwab as result of this arrangement. There is no corresponding commitment made by Sterling to Schwab, or any other entity, to invest any specific amount or percentage of client assets in any specific securities, mutual funds or other investment products as result of the above arrangement.

Sterling's Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.



*B. Client Referrals to Sterling*

Sterling does not compensate any third-party for referring clients to Sterling. All client relationships are established by way of personal or professional contact and through existing business relationships.

**Item 15 | Custody**

Sterling is considered to have custody due to our ability to directly deduct advisory fees from client's brokerage account. However, client's must first authorize the custodian in writing before any advisory fees can be paid to the firm. Sterling will not maintain physical possession of the funds or securities of any separately managed investment advisory client.

Charles Schwab & Co. is the current preferred custodian for Sterling. Charles Schwab & Co. is a FINRA member firm headquartered in San Francisco, CA. Sterling has entered into an agreement with Charles Schwab & Co. in which Charles Schwab & Co. serves as the primary custodian of client funds and/or securities. Sterling may enter into custodial arrangements with other brokerage firms and bank trust departments.

The custodian will provide a statement at least quarterly for each brokerage account. Custodian account statements display all account activity, including the amounts disbursed for advisory fees. In addition, clients may request to receive an account statement from Sterling on a monthly or quarterly basis. We urge clients to compare custodial account statements with those provided by Sterling since both statements may vary based on accounting procedures, reporting dates, and valuation methodologies of certain securities.

In some instances, an employee of Sterling may serve as co-trustee for an account which Sterling also provides advisory services. All account trustees receive both Charles Schwab and Sterling's statements at least quarterly. Management fees are paid by those trust accounts individually, and in an identical manner of all other advisory accounts. An annual surprise examination is conducted on each trust account by a third-party accounting firm. Reports and acknowledgements of the audit are provided by the accounting firm to all trustees.

**Item 16 | Investment Discretion***Discretionary Portfolio Management*

Sterling accepts both discretionary and nondiscretionary holdings. Any limitations imposed on the discretionary authority of Sterling shall depend on the terms of the agreement governing Sterling's relationship with each client on an individual basis.

In those cases, where Sterling has full discretionary authority over client accounts, and the client has not imposed any specific restrictions, Sterling will generally have unlimited discretionary authority, without obtaining specific consent, to determine:

- Securities to be bought or sold
- Amount of the securities to be bought or sold
- Broker or dealer to be used
- Commission rates paid

In such cases, there are no limitations on Sterling's authority in the areas indicated (other than as may be imposed by law or by a client's specified restriction). It should be noted that with regard to commission rates, Sterling does not have the power to determine the rates paid, only the authority to negotiate with and accept or reject rates offered by various broker-dealers.

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

Clients maintain exclusive responsibility for Directing the manner in which proxies are voted when solicited by issuers of securities. Consequently, all proxy solicitations will be sent directly to clients for voting. In the event a proxy solicitation is sent to Sterling on behalf of a client, Sterling will forward the solicitation to the client's address of record immediately so that the client may cast their vote.

#### **Item 18 | Financial Information**

Sterling does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding. In addition, we do not require or solicit pre-payment of advisory fees for more than \$1,200 per client, six months or more in advance

**Item 1 – Cover Page**



**Form ADV Part 2B**

**Brochure Supplement:**

**John H. Payne, CFA**

**President and Chief Investment Officer**

Date of Brochure: December 31, 2019

Sterling Investment Management, Inc.  
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This brochure supplement provides information about John H. Payne, CFA and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. The IAPD web address: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterling Investment Management, Inc. shall be referred to as "Sterling" throughout the remainder of this document.

**Item 2 – Educational Background and Business Experience****John H. Payne, CFA**

John H. Payne, CFA is President and Chief Investment Officer of Sterling Investment Management, Inc. Mr. Payne is a member and participant of Sterling's Investment Policy Committee, where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.

Mr. Payne received a Bachelor of Arts in Geology from Indiana University and attended the University of Wyoming where he attained a Master of Science in Finance with a specialty in Investment Research and a Minor in Accounting. His Master's Thesis regarding investment theory has been published in a leading academic journal.

With over 25 years of investment experience, Mr. Payne has performed extensive financial analysis on individual companies and industry groups. His career has included active portfolio management and trading of equity, fixed income, and derivative securities, as well as publishing investment strategy overviews to communicate tactics and research to clients, peers, and the business community.

Prior to founding Sterling in 1995, Mr. Payne was Vice President and Senior Portfolio Manager for Bank of America, managing the Investment Advisory Group. The Investment Advisory Group was responsible for the management of investment portfolios for high-net worth private clients, IRA accounts, non-profit organizations, profit sharing plans, corporations, and personal trust accounts.

Mr. Payne currently serves as a Board of Trustee of the University of Arizona Foundation and is Chair of the Foundation's Investment Committee. He is past-President of the Industrial Development Authority of Pima County and serves on the Board of Directors for the Community Investment Corporation. He is a member of the Advisory Board for Angel Charity for Children, Inc., and is a member of the Steele Children's Research Center Advisory Board,

Preceding his current affiliations, Mr. Payne has been a member of the Board of Trustees for the Community Foundation of Southern Arizona, Board of Directors for the Tucson Jewish Community Center, the Board of Directors for Family Housing Resources, the Board of Directors for the University Medical Center Foundation, and is a past member of the Board of Trustees for the Arizona-Sonora Desert Museum, among others.

Attaining the professional designation of Chartered Financial Analyst (CFA), Mr. Payne is currently a member of the CFA Institute, CFA Society of Phoenix, and the CFA Society of Tucson. The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals.

To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

### **High Ethical Standards**

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, requires CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

### **Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

### **Item 4 – Other Business Activities**

John H. Payne, CFA, is currently a minority member of eight (8) private investment limited liability corporations. The limited liability corporations are comprised of a small number of accredited investors, some of which are also clients of Sterling Investment Management, Inc. Mr. Payne does not spend a substantial amount of investment-related business activity on these limited liability corporations.

### **Item 5 – Additional Compensation**

John H. Payne, CFA does not provide advisory services to any person other than clients of Sterling Investment Management, Inc. Mr. Payne does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

### **Item 6 – Supervision**

Crystal Kelly, Chief Compliance Officer, is responsible for supervising Mr. Payne. Mrs. Kelly's phone number is 520.293.3311. Her email address is CKelly@SterlingInvestor.com.

**Item 1 – Cover Page**



**Form ADV Part 2B**

**Brochure Supplement:**

**Arumayta M. Arguello,**  
**Portfolio Manager & Senior Trader**

Date of Brochure: December 31, 2019

Sterling Investment Management, Inc.  
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CRD No.: 112923  
SEC File No.: 801-50373

This brochure supplement provides information about Arumayta M. Arguello and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

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**Item 2 – Educational Background and Business Experience****Arumayta M. Arguello**

Mrs. Arguello graduated from The University of Central Florida in 2009, receiving a Bachelor of Science in Business Administration with concentration in Finance and attained her Master of Investment Management and Financial Analysis from Creighton University. Prior to joining Sterling, she proudly served six years in the United States Air Force as an Avionics Technician.

In her current role as a Portfolio Manager and Senior Trader, Mrs. Arguello is responsible for portfolio asset allocation, security selection, underlying research and analysis associated with all of Sterling's investment portfolios. In addition, she is Sterling's primary resource for trade placement and allocation. Mrs. Arguello is a member and participant in Sterling's Investment Policy Committee where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.

Mrs. Arguello is a Level III candidate in the Chartered Financial Analyst (CFA) program. The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals.

To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

**High Ethical Standards**

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- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

**Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

**Item 4 – Other Business Activities**

Mrs. Arguello is not engaged in any other business, employed or compensated by any other person, serve as an officer, director, partner or employee of another business organization, or owns any stock or having any direct or indirect financial interest in any other organization engaged in any securities, financial or kindred business.

**Item 5 – Additional Compensation**

Mrs. Arguello does not provide advisory services to any person other than clients of Sterling Investment Management, Inc.

Mrs. Arguello does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

**Item 6 – Supervision**

John H. Payne, President and Chief Investment Officer is responsible for supervising Mrs. Arguello. Mr. Payne's phone number is 520.293.3311 and his email address is JPayne@SterlingInvestor.com.