

## Item 1: Cover Page

### **Part 2A of Form ADV Firm Brochure**

May 14, 2020

#### **Carter Financial Group, Inc.**

CRD No. 301025

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This brochure provides information about the qualifications and business practices of Carter Financial Group, Inc. If you have any questions about the contents of this brochure, please contact us at 847-713-2700. 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. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Carter Financial Group, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. We will provide you with other interim disclosures about material changes as necessary. At this time there are no material changes.

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## **Item 4: Advisory Business**

### **A. Carter Financial Group, Inc.**

Carter Financial Group, Inc. ("Carter Financial" and/or "the firm") is an Illinois corporation primarily owned by Kevin Carter. Carter Financial has been providing investment advisory services since October 2019.

### **B. Advisory Services Offered**

#### **B.1. Investment Management Services**

We offer Investment Management Services based on the individual goals, objectives, time horizon, and risk tolerance of each client. Investment Management Services may include, but are not limited to, the following:

- Discretionary and Non-Discretionary Investment Management
- Asset allocation strategy
- Regular and/or continuous portfolio monitoring
- Portfolio allocation with third-party managers
- Coordination with other third parties (accountants, attorneys, insurance agents, etc.) on an as-needed basis

For discretionary investment management services, Carter Financial receives a limited power of attorney to effect securities transactions on behalf of clients that include securities and strategies described in Item 8 of this brochure. Discretionary authority allows us to act on behalf of the client in most matters necessary or incidental to the handling of the account, including monitoring certain assets, without the client's prior approval. Risk tolerance levels establishing the client's objectives and suitability will be documented and made available to each client.

Clients have the right to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm in writing of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. Carter Financial will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Carter Financial will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### **B.2. Financial Planning Services**

Carter Financial offers financial planning as part of its investment management services or as a standalone service. Several primary areas are evaluated in order to develop a written financial plan, tailored to fit the client's needs. Consultation may involve discussion of the client's assets and liabilities, current income and expenses, goals and objectives, current investments, insurance coverage, retirement planning, estate planning, business holdings, education planning, special

needs planning, and the attitudes and investment philosophy of the client. These topics may be discussed, along with other relevant factors to help assess the client's immediate and long-term financial needs.

Financial planning services may include any of the following topics:

- Individual savings goals and asset allocation
- Assistance with major purchase buy/sell decisions
- Retirement accumulation planning
- Retirement income planning
- Education planning and funding choices
- Qualified plan and IRA distribution analysis
- Retirement social security benefit analysis
- Investment planning
- Financial organization through a personal financial website
- Insurance planning
- Estate planning and gifting strategies
- Executive planning with stock options and deferred comp evaluations
- Business planning services
- Divorce planning
- Estate distribution services
- Special needs planning

Carter Financial provides online access to client's financial assessment, and includes recommendations and investment strategies on how to achieve the client's goals and objectives. Written financial reviews are available upon client request. Implementation of the prepared plan or recommendations is mutually developed with the client and is solely at client's discretion. Carter Financial encourages clients to utilize any desired professional or group of professionals to assist in the implementation.

## **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be sold in the portfolio.

## **D. Wrap Fee Programs**

Carter Financial does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.) Carter Financial may recommend wrap fee programs offered through third-party managers. Carter Financial's fee is separate and distinct from the fees charged by such third-party managers.

## **E. Client Assets Under Management**

As of December 31, 2019, Carter Financial has \$136,000,000 assets under management, all on a discretionary basis.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Investment Management Fees

Carter Financial charges an asset-based fee for its investment management services. The asset-based fee is calculated as a percentage of the value of the managed assets according to the following fee schedule, which represents Carter Financial's maximum fees for individual services. Fees are negotiable.

<u>Portfolio Value</u>	<u>Annual Fee Rate</u>
First \$ 0 - \$ 250,000	2.50%
Next \$ 250,001 - \$ 500,000	2.30%
Next \$ 500,001 - \$ 1,000,000	1.75%
Next \$ 1,000,001 - \$ 5,000,000	1.50%
Next \$ 5,000,001 - \$ 10,000,000	1.25%
Next \$ 10,000,001 and over	1.00%

Asset-based fees are always subject to the investment advisory agreement between the client and Carter Financial. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month. Adjustments for significant contributions (20% or more of the value of portfolio) to a client's portfolio may be prorated for the quarter in which the change occurs; no adjustments will be made for withdrawals.

A client investment advisory agreement may be canceled at any time by the client, or by Carter Financial with 30 days' prior written notice to the client. Upon termination, any unearned, prepaid fees will be promptly refunded.

#### A.1.a. Important Disclosure – Custodian Investment Programs

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. Nonetheless, if the firm decides to take these 12b-1 fees in the future, please note the following: There are certain programs offered by our custodian in which the firm participates that limit the types of mutual funds and mutual fund share classes to those in which our custodian has negotiated the receipt of 12b-1 and/or other revenue sharing fee payments from the mutual fund issuer or sponsor. As such, a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the



marketplace when recommending mutual funds to the client. Such fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the broker-dealer receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

***Additional Disclosure Concerning Wrap Programs:*** Wrap fee programs offer investment services and related transaction services for one all-inclusive fee. Carter Financial does not offer a wrap fee program, although it may recommend third-party wrap fee programs. Nonetheless, in a wrap fee program, the trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees borne by the client. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

## **A.2. Financial Planning Fees**

For clients with at least \$750,000 in assets under management with Carter Financial, financial planning is offered at no additional charge. For standalone financial planning or clients with less than \$750,000 in assets under management, Carter Financial will charge a fixed fee of \$500 for the initial plan, and \$250 annually after the first year if the client contracts for continuous financial planning.

Carter Financial requires 25 percent of the fee to be paid in advance prior to the start of the project, with the remainder to be paid upon completion and delivery of the plan. Carter Financial does not require prepayment of fees of \$1,200 or more, six months or more in advance. Clients seeking to terminate this service must do so in writing.

## **B. Client Payment of Fees**

Carter Financial generally requires investment management fees to be prepaid on a quarterly basis. Carter Financial requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

Carter Financial will deduct its advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

For financial planning services, Carter Financial requires 25 percent of the fee to be paid in advance prior to the start of the project, with the remainder to be paid upon completion and delivery of the plan.

## **C. Additional Client Fees Charged**

In addition to Carter Financial's fee, clients may incur certain charges imposed by custodians, brokers, third-party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, mutual fund sales loads, 12(b)-1 fees, surrender charges, variable annuity fees and surrender charges, IRA and qualified retirement plan fees, and other fees and taxes. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Advisory fees charged by Carter Financial are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. Carter Financial does not share in or receive any portion of such fees. A description of these fees and expenses are available in each investment company security's prospectus.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

## **D. External Compensation for the Sale of Securities to Clients**

Carter Financial's advisory professionals are compensated primarily through a salary and bonus structure. Kevin Carter may be paid sales, service or administrative fees for the sale of mutual funds or other investment products. In addition, Kevin Carter may receive commission-based compensation for the sale of securities and insurance products. Investment adviser representatives, in their capacity as a Mutual Securities registered representative, are prohibited from earning an advisory fee on the securities value transferred from an advisory client's Mutual Securities brokerage account unless commissions earned on such securities transactions

occurred at least a 12–18 months prior to the transfer. Please see Item 10.C. for detailed information and conflicts of interest.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

Carter Financial does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

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

Carter Financial offers its investment services to various types of clients including individuals, high-net-worth individuals, trusts, corporations, partnerships, retirement plans, tax exempt, and other legal entities.

Carter Financial, in its sole discretion, may waive the required minimum.

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

### **A. Methods of Analysis and Investment Strategies**

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

#### **A.1. Model Portfolios**

Carter Financial currently has proprietary model portfolios that range from conservative to aggressive. These model portfolios generally utilize equity and fixed income securities, although the percentages of equity and fixed income vary depending on the risk level. For example, conservative portfolios will have a higher allocation to fixed income and a lower allocation to equities. The allocations invert as the portfolio risk becomes more aggressive. In other words, more aggressive portfolios will have higher allocations to equities than fixed income. The firm utilizes ten models so it can accommodate clients with varying tolerances for risk. Carter Financial may utilize third-party money managers for managing its clients' portfolios.

#### **A.2. Methods of Analysis**

Carter Financial uses a variety of sources of data to conduct its economic, investment and market analysis, which may include financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

Carter Financial and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, Carter Financial reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. Carter Financial may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

### **A.3. Mutual Funds and Exchange-Traded Funds, Individual Securities, and Third-Party Separate Account Managers**

Carter Financial may recommend institutional share class mutual funds and individual securities (including fixed income instruments). Carter Financial may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that Carter Financial will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), and managers is set forth below.

Carter Financial has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform or distribute research of individual securities
- perform billing and certain other administrative tasks

Carter Financial may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, and managers to clients as appropriate under the circumstances.

### **A.4. Material Risks of Investment Instruments**

Carter Financial may invest in open-end mutual funds and exchange-traded funds for the vast majority of its clients. In addition, for certain clients, Carter Financial may effect transactions in the following types of securities:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Variable annuities
- Real Estate Investment Trusts ("REITs")

#### **A.4.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing

or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.4.b. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.4.c. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. ETFs have embedded expenses that the client indirectly bears.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.4.d. Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.



#### **A.4.e. Variable Annuities**

Variable Annuities are long-term financial products designed for retirement purposes. In essence, annuities are contractual agreements in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. There are contract limitations and fees and charges associated with annuities, administrative fees, and charges for optional benefits. They also may carry early withdrawal penalties and surrender charges, and carry additional risks such as the insurance carrier's ability to pay claims. Moreover, variable annuities carry investment risk similar to mutual funds. Investors should carefully review the terms of the variable annuity contract before investing.

#### **A.4.f. Non-Traded Real Estate Investment Trusts ("REITs")**

A REIT is a tax designation for a corporate entity which pools capital of many investors to purchase and manage real estate. Many REITs invest in income-producing properties in the office, industrial, retail, and residential real estate sectors. REITs are granted special tax considerations which can significantly reduce or eliminate corporate income taxes. In order to qualify as a REIT and for these special tax considerations, REITs are required by law to distribute 90% of their taxable income to investors. REITs can be traded on a public exchange like a stock, or be offered as a non-traded REIT. REITs, both public exchange-traded and non-traded, are subject to risks including volatile fluctuations in real estate prices, as well as fluctuations in the costs of operating or managing investment properties, which can be substantial. Many REITs obtain management and operational services from companies and service providers which are directly or indirectly related to the sponsor of the REIT, which presents a potential conflict of interest that can impact returns on investments.

Non-traded REITs include: (i) A REIT that is registered with the Securities and Exchange Commission (SEC) but is not listed on an exchange or over-the-counter market (non-exchange traded REIT); or, (i) a REIT that is sold pursuant to an exemption to registration (Private REIT). Non-traded REITs are generally blind pool investment vehicles. Blind pools are limited partnerships which do not explicitly state their future investments prior to beginning their capital-raising phase. During this period of capital-raising, non-traded REITs often pay distributions to their investors.

The risks of non-traded REITs are varied and significant. Because they are not exchange-traded investments, they often lack a developed secondary market, thus making them illiquid investments. As blind pool investment vehicles, non-traded REITs' initial share prices are not related to the underlying value of the properties. This is because non-traded REITs begin and continue to purchase new properties as new capital is raised. Thus, one risk for non-traded REITs is the possibility that the blind pool will be unable to raise enough capital to carry out its investment plan. After the capital raising phase is complete, non-traded REIT shares are infrequently re-valued and thus may not reflect the true net asset value of the underlying real estate investments. Non-traded REITs often offer investors a redemption program where the shares can be sold back to the sponsor, however, those redemption programs are often subject to restrictions and may be suspended at the sponsor's discretion. While non-traded REITs may pay distributions to investors at a stated target rate during the capital-raising

phases, the funds used to pay such distributions may be obtained from sources other than cash flow from operations, and such financing can increase operating costs.

## **B. Investment Strategy and Method of Analysis Material Risks**

Our investment strategy is aligned with the client's goals, investment objectives, and risk tolerance.

### **B.1. Margin Leverage**

Although Carter Financial, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, Carter Financial will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although Carter Financial, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

Carter Financial generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

### **B.4. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

### **B.5. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

Carter Financial as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases

#### **B.5.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the-money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

**B.5.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

**B.5.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

**C. Security-Specific Material Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Kevin Carter is a registered representative of Mutual Securities, a FINRA-registered broker-dealer and member of SIPC. Mutual Securities is a financial services company engaged in the sale of investment products.

As a result of his affiliation with Mutual Securities, Kevin Carter, in his capacity as a registered representative of Mutual Securities, is subject to the general oversight of Mutual Securities and the Financial Industry Regulatory Authority Inc. ("FINRA"). As such, clients of Carter Mutual Securities should understand that their personal and account information is available to FINRA and Mutual Securities for the fulfillment of their regulatory oversight obligations and duties.

### **B. Futures or Commodity Registration**

Neither Carter Financial nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Broker-Dealer Registration**

Kevin Carter, as a registered representative of Mutual Securities, may receive transaction or commission compensation to effect transactions for advisory clients. The recommendation of securities transactions for commission creates a conflict of interest in that Carter Financial is economically incented to effect securities transactions for clients. Although Carter Financial strives to put its clients' interests first, such recommendations may be viewed as being in the best interests of Carter Financial rather than in the client's best interest. Carter Financial advisory clients are not compelled to effect securities transactions through Mutual Securities.

#### **C.2. Insurance Sales**

Kevin Carter is a licensed insurance agent and may recommend insurance products offered by such carriers for whom he functions as an agent and receive a commission for doing so. Please be advised there is a conflict of interest in that there is an economic incentive to recommend insurance and other products of such carriers. Please also be advised that Carter Financial strives to put its clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with Carter Financial's employing broker-dealer.

## **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Carter Financial may receive remuneration from advisers, investment managers, or other service providers that it recommends to clients. Clients are under no obligation to use any third-party provider recommended by Carter Financial and may use the provider of their choice. With respect to its investment management services, the firm engages third-party investment managers to manage Carter Financial client accounts and receives a portion of the advisory fees charged by Carter Financial for its investment management services.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, Carter Financial has adopted policies and procedures designed to detect and prevent insider trading. In addition, Carter Financial has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of Carter Financial's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of Carter Financial. Carter Financial will send clients a copy of its Code of Ethics upon written request.

Carter Financial has policies and procedures in place to ensure that the interests of its clients are given preference over those of Carter Financial, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

Carter Financial does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, Carter Financial does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

Carter Financial, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which Carter Financial specifically prohibits. Carter Financial has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account



- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow Carter Financial's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Carter Financial, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other Carter Financial clients. Carter Financial will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation (please refer to Item 12.B.3 Order Aggregation). It is the policy of Carter Financial to place the clients' interests above those of Carter Financial and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

Carter Financial participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC, to maintain custody of clients' assets and to effect trades for their accounts. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade offers to independent investment advisers services which include custody of securities, trade execution, clearance, and settlement of transactions. Carter Financial receives benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Item 14 below.)

Although Carter Financial may recommend that clients establish accounts at TD Ameritrade, it is the client's decision to custody assets with the custodian. For Carter Financial client accounts maintained in its custody, TD Ameritrade generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through TD Ameritrade or that settle into TD Ameritrade accounts.

In certain instances and subject to approval by Carter Financial, Carter Financial may recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by Carter Financial will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. How We Select Brokers/Custodians to Recommend

Carter Financial seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)

- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.b. Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging either transaction fees or custodian asset-based fees on trades that it executes or that settle into the custodian's accounts. For some accounts, the custodian may charge a percentage of the dollar amount of assets in the account in lieu of commissions. The custodian's commission rates and asset-based fees applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates and asset-based fees paid are lower than they would be if the firm had not made the commitment. In addition to commissions or asset-based fees, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### **A.1.c. Soft Dollar Arrangements**

As a result of the firm's recommendation to clients to custody assets with a specific custodian, the firm is deemed to be in receipt of soft dollar benefits from said custodian. These soft-dollar benefits are in the form of institutional trading and custody services, other products and services, and additional compensation received from custodians. (Please refer to the disclosure under Item 14 below.)

#### **A.2. Brokerage for Client Referrals**

Carter Financial does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

### **A.3. Directed Brokerage**

#### **A.3.a. Carter Financial Recommendations**

Carter Financial typically recommends TD Ameritrade as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

#### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct Carter Financial to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage Carter Financial derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. Carter Financial loses the ability to aggregate trades with other Carter Financial advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

Carter Financial, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. Carter Financial recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. Carter Financial will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, Carter Financial seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of Carter Financial's knowledge, these custodians provide high-quality execution, and Carter Financial's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, Carter Financial believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

### **B.2. Security Allocation**

Since Carter Financial may be managing accounts with similar investment objectives, Carter Financial may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Carter Financial in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Carter Financial's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Carter Financial will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

Carter Financial's advice to certain clients and entities and the action of Carter Financial for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of Carter Financial with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of Carter Financial to or on behalf of other clients.

### **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This

is true even if Carter Financial believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

Carter Financial acts in accordance with its duty to seek best price and execution and will not continue any arrangements if Carter Financial determines that such arrangements are no longer in the best interest of its clients.

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

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

Accounts are reviewed by the Carter Financial investment adviser representative servicing the client's account. The frequency of reviews is determined based on the client's investment objectives, but reviews are conducted no less frequently than annually, which may be waived at client's request. More frequent reviews may also be triggered by a change in the client's investment objectives, tax considerations, large deposits or withdrawals, large purchases or sales, loss of confidence in the underlying investment, or changes in macro-economic climate.

Financial plans are monitored and reviewed on an ongoing basis. Clients have access to their financial plans electronically.

### **B. Review of Client Accounts on Non-Periodic Basis**

Carter Financial may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how Carter Financial formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

Carter Financial's reports to the client on a quarterly basis or at some other interval agreed upon with the client, information on contributions and withdrawals in the client's investment portfolio, and the performance of the client's portfolio measured against appropriate benchmarks.

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by Carter Financial.

## Item 14: Client Referrals and Other Compensation

### A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

#### A.1. TD Ameritrade

As disclosed under Item 12 above, Carter Financial participates in TD Ameritrade's institutional customer program and may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between Carter Financial's participation in the program and the investment advice it gives to its clients, although Carter Financial receives 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 Carter Financial 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 Carter Financial by third-party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Carter Financial's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Carter Financial but may not benefit its client accounts. These products or services may assist Carter Financial in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Carter Financial manage and further develop its business enterprise. The benefits received by Carter Financial 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, Carter Financial endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Carter Financial or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Carter Financial's choice of TD Ameritrade for custody and brokerage services.

Carter Financial also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisers participating in the program. Specifically, the Additional Services include the following vendors/services: Advisory Website for client portal; Redtail for CRM Solutions; YCharts for research platform; and Orion for portfolio management. Carter Financial is entitled to receive up to \$35,000 in total Additional Services. TD Ameritrade provides the Additional Services to Carter Financial in its sole discretion and at its own expense, and Carter Financial does not pay any fees to TD Ameritrade for the Additional Services. Carter Financial and TD Ameritrade have entered



into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

Carter Financial's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Carter Financial, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Carter Financial's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with Carter Financial, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Carter Financial may have an incentive to recommend to its clients that the assets under management by Carter Financial be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. Carter Financial's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including to seek best execution of trades for client accounts.

### **A.2. Expense Reimbursements**

The firm may from time to time receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing, such as advertising, publishing, and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made. This creates a conflict of interest in that there is an incentive to recommend certain products and investments based on the receipt of this compensation instead of what is in the best interest of our clients. We attempt to control for this conflict by always basing investment decisions on the individual needs of our clients.

## **B. Advisory Firm Payments for Client Referrals**

Carter Financial does not pay for client referrals.

## Item 15: Custody

Carter Financial is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.

Individual advisory clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. Clients are urged to compare the account balance(s) shown on their account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to Carter Financial with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, Carter Financial will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement. In addition, subject to the terms of its investment advisory agreement, Carter Financial may be granted discretionary authority for the retention of independent third-party investment management firms. Investment limitations may be designated by the client as outlined in the investment advisory agreement. Please see the applicable third-party manager's disclosure brochure for detailed information relating to discretionary authority.

## Item 17: Voting Client Securities

Carter Financial does not take discretion with respect to voting proxies on behalf of its clients. Carter Financial will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of Carter Financial supervised and/or managed assets. In no event will Carter Financial take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, Carter Financial will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. Carter Financial has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. Carter Financial also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, Carter Financial has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where Carter Financial receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

Carter Financial does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

Carter Financial does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.