

# **Form ADV Part 2A Appendix 1**

## **Wrap Fee Programs**

### **Innovation Managed Advisory Program ("I-MAP")**

### **Premier Managed Advisory Program ("P-MAP")**

**2701 N. Rocky Point Drive  
Suite 1000  
Tampa, FL 33607**

**Telephone: 813-264-0440  
Facsimile: 813-962-8692**

**[www.calton.com](http://www.calton.com)**

This brochure provides information about the qualifications and business practices of Calton & Associates, Inc. If clients have any questions about the contents of this brochure, please contact Calton at 813-264-0440. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Additional information about Calton & Associates, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Clients can search this site by using a unique identifier known as a CRD number. Calton & Associates, Inc. CRD number is 20999.

## **Item 2 - Material Changes**

On July 28, 2010, the United States Securities and Exchange Commission published "Amendments to Form ADV" which amends the disclosure document that Calton & Associates, Inc. ("Calton") provides to clients as required by the Investment Advisers Act of 1940 rules.

Pursuant to the rule under the Investment Advisers Act, Calton will ensure that clients receive a summary of any material changes to this and subsequent Brochures within 120 days as of the close of its fiscal year end of 9/30. Calton will provide its clients with other ongoing disclosure information about material changes to its Form ADV as necessary.

Calton will also provide clients with a new Brochure as necessary based on changes or new disclosure information to its Form ADV. A brochure may be requested by contacting Calton's home office at 800-942-0262.

This summary of material changes identifies, and provides information to the changes made to Calton's Form ADV 2A Brochure since its last update on December 19, 2020. To review all changes since the last update, please review the entire brochure. Material changes since our last changes include the following:

### **Item 9 – Additional Information**

Calton has updated this item to disclose disciplinary information since the last Form ADV Part 2A Appendix 1 Wrap Fee Program filing.

### Item 3 - Table Of Contents

Item 2 Material Changes.....	2
Item 3 Table Of Contents.....	3
Item 4 Services, Fees, and Compensation.....	4-10
Item 5 Account Requirements and Types of Clients.....	11
Item 6 Portfolio Manager Selection and Evaluation.....	11-16
Item 7 Client Information Provided to Portfolio Managers .....	16
Item 8 Client Contact with Portfolio Managers.....	16
Item 9 Additional Information .....	16-23

## **Item 4 - Services, Fees, and Compensation**

### **Calton & Associates**

Calton & Associates, Inc. ("Calton") is a privately owned corporation registered as a Registered Investment Adviser with the United States Securities and Exchange Commission ("SEC"), and also as a broker/dealer with the SEC and Financial Industry Regulatory Authority ("FINRA"). Calton is licensed to conduct business as a broker/dealer and Registered Investment Adviser in all 50 states and Puerto Rico.

### **Wrap Fee Programs**

Calton offers the Innovation Managed Advisory Program ("I-MAP") and Premier Managed Advisory Program ("P-MAP") with the option to be charged under a wrap fee program. Calton is the sponsor and manager of the I-MAP and P-MAP wrap fee programs.

These wrap programs provide clients with access to an account with portfolio and asset management services for a single investment advisory fee that includes management fees, charges and securities transaction costs. Calton and its IAR receive a portion of the wrap fee for the investment advisory services provided under the Investment Advisory Agreement. The overall cost the client will pay for participating in a wrap fee program may be higher or lower than the cost a client may pay by separately purchasing and selling the types of securities in a commission-based brokerage account that are made available in the wrap program. Additional administrative fees of up to \$40 per quarter may be charged in both wrap, and non-wrap, investment advisory fee-based programs.

To compare the costs of the wrap fee programs with non-wrap fee portfolio management services, the client should consider the frequency of trading activity in his or her account versus a commission-based brokerage account. Calton and/or its IARs recommending a wrap fee program account versus a commission-based brokerage account may have a conflict of interest as Calton and/or its IAR may receive higher compensation for recommending the wrap account.

Calton is the manager and sponsor to the Premier Managed Advisory Program ("P-MAP") and Innovation Managed Advisory Program ("I-MAP") programs. Clients' accounts in P-MAP and I-MAP are managed by Calton and clients are charged a calculated investment advisory fee, subject to an investment advisory fee minimum, that includes both management services and securities transaction costs. P-MAP and I-MAP are offered to prospective and existing investment advisory clients and are designed to make asset management services available to clients under a single program "wrap fee". Depending upon the number of transactions executed in the client's account, the overall cost to the client to participate in the P-MAP and I-MAP programs may be higher or lower than the client may pay by separately purchasing the types of securities available in P-MAP and I-MAP programs.

Prior to becoming a client under P-MAP or I-MAP programs, the client will be required to enter into an Investment Advisory Agreement with Calton that describes the terms and conditions of the agreements, the scope of the services to be provided, and the investment advisory fees to be paid to Calton.

### **Premier Managed Advisory Program (P-MAP)**

P-MAP offers asset allocation into multiple investment "sleeves". Sleeves are portfolios that allow the portfolio manager(s) to focus on a particular asset class or strategy. Sleeves can include stocks, bonds, mutual funds and Exchange Traded Funds ("ETFs"). Sleeves are coordinated into the client's

portfolio to help achieve the client's investment objectives. P-MAP sleeves have been developed by Calton's portfolio manager and/or by third-party money managers ("TPMMs"). Calton will make the investment decisions for the client under P-MAP by combining different percentages of sleeves into the client's portfolio.

The client's relationship with Calton begins with the client providing information so that Calton can understand and assess the client's financial situation, investment objectives, investment experience, risk tolerance, investment time horizon, and other relevant information. The client's information is needed to help Calton to determine the program and in selecting asset allocation strategies based on the client's specific needs and best interests. Calton will combine different sleeves in different proportions to meet a range of the client's investment objectives including the following:

**Capital Preservation:**

A portfolio with an investment objective of capital preservation will invest predominantly in the fixed income bonds sleeve. This portfolio seeks to preserve the client's capital and minimize potential losses and is focused towards clients who want more protection from potential losses than a portfolio investment in stocks.

**Conservative:**

A portfolio with an investment objective of conservative is designed for clients whose primary investment objective is to help reduce the fluctuation risk of their portfolio assets, including clients that are nearing retirement or have a lower tolerance for risk, but may desire some exposure to stocks in order to provide the potential for growth of their portfolio assets.

**Conservative Growth:**

A portfolio with an investment objective of conservative growth is designed for clients who want the potential for some growth of assets. The majority of the client's portfolio assets will be allocated to the bond fixed income sleeve with more exposure to stocks than the conservative sleeve.

**Moderate:**

A portfolio with an investment objective of moderate is designed to seek capital preservation and growth of as equal investment objectives. The moderate portfolio is designed for clients who want the potential for higher returns from stocks over the long term, but with the objective of mitigating large fluctuations that that can occur in the short term.

**Moderate Growth:**

A portfolio with an investment objective of moderate growth is designed and weighted with a higher percentage of the client's portfolio invested in stock sleeves, but also with bonds in the fixed income sleeve. It is designed for clients that have a medium to long term investment horizon.

**Growth:**

A portfolio with an investment objective of growth seeks growth of the client's portfolio by predominately using stock focused sleeves. The portfolio may hold smaller percentage of bonds in the fixed income sleeve. The growth portfolio is designed for clients who are willing to accept greater risk in exchange for the potential for higher returns provided by stocks over the long term.

**Aggressive:**

A portfolio with the primary investment objective of aggressive growth investing the client's assets in the stock sleeves. Bond fixed income is not an investment objective of the aggressive growth portfolio. The aggressive portfolio is designed for clients who are willing to accept high risk in exchange for the potential of higher returns provided by stocks. Clients in the aggressive portfolio should be experienced investors able to potentially bear higher volatility and losses and have an investment time horizon of more than five years.

**Innovation Managed Advisory Program ("I-MAP")**

Calton and its IARs will construct and directly manage a portfolio of stocks, bonds, mutual funds, and Exchange Traded Funds ("ETFs"). The I-MAP program is offered as an all-inclusive wrap fee program where all fees, charges and expenses and the investment advisory fee are "wrapped" under one fee or as a non-wrap program where the commissions for transactions, fees, charges and expenses are paid by the client in addition to the investment advisory fee.

**Trading Authorization**

P-MAP is offered as a discretionary program only. I-MAP is offered on either a discretionary or non-discretionary basis. Calton may use third party tools and services and be charged to manage the P-MAP program. Unless otherwise agreed to in writing separately, the fees by third-parties are paid by Calton and not the client.

The client authorizes Calton and its IAR to have discretionary authority to manage the client's account under the I-MAP and P-MAP programs. Calton and its IAR have the authority and responsibility to formulate investment strategies on the client's behalf. The discretionary authorization includes deciding which securities to buy and sell, when to buy and sell, and in what amounts, in accordance with the client's investment program without obtaining prior consent or approval for each transaction from the client. Discretionary authority is granted in the Investment Advisory Agreement signed by the client with power of attorney, and/or trading authorization. The client may limit Calton's discretionary authority (for example, limiting the types of securities that can be purchased in the client's account) by providing Calton with written restrictions and guidelines, which will be deemed received after being countersigned by Calton. The client may change or amend these limitations. Amendments must be submitted in writing and will be deemed received after being countersigned by Calton. Calton will not wire or transfer funds to third parties without the client's prior written approval. If the client enters into non-discretionary arrangements Calton will obtain the client's approval prior to executing any transactions in the account.

For clients entering into non-discretionary arrangements with Calton in the I-MAP program, Calton will obtain approval prior to the execution of any transactions in the client's account(s). The client has an unrestricted right to decline to implement any investment advice provided by Calton and/or its IARs on a non-discretionary basis.

**Transaction Costs**

Transaction costs are the costs associated with purchasing or selling securities. The P-MAP and I-MAP transaction costs are included or "wrapped" into the investment advisory fee paid by the client. Other administrative charges may be charged to the client's account. Transaction costs do not include custodian fees, related charges for mailgrams, extensions, debit interest, fees for trades executed away from the custodian, and other administrative fees which are additional charges the client pays. Third Party Money Managers ("TPMMs") that are responsible for managing a part of or all

of the client's account will receive a portion of the investment advisory fee paid to Calton. The investment advisory fee paid depends on the specific TPMM selected.

### **Fees**

Calton investment advisory fee for P-MAP and I-MAP is based on a percentage of assets under management ("AUM"). The account management fee is payable quarterly in advance and is computed as one-quarter of the annual investment advisory fee, based on the AUM on the last business day of the previous calendar quarter. The total annual account Wrap Fee under P-MAP and I-MAP includes the investment advisory, clearing, custody and trading fees. It also includes any investment advisory fees paid to sub-advisors for managing sleeves. The total amount of the Wrap Fee is negotiable between the IAR and the client subject to a maximum of 2.60% annually. In addition to the Wrap Fee, the client may pay certain charges imposed by third parties in connection with investments made through P-MAP and I-MAP.

These fees include, but are not limited to, the following:

1. Mutual fund or money market 12b-1 fees, transfer agent fees and distributor fees
2. Mutual fund and money market management fees and administrative expenses
3. Mutual fund transaction fees and certain deferred sales charges on previously purchased mutual funds transferred into the account
4. Other transaction charges and service fees
5. IRA and qualified retirement plan custodian fees
6. Other charges that may be required by law

Calton may receive a portion of these fees. Calton reserves the right to charge an administrative fee of \$40 per quarter per account.

Calton will send an invoice for the payment of its investment advisory fee or will deduct the investment advisory fee directly from the client's account through the qualified custodian holding and maintaining the account. Calton will deduct its investment advisory fee only when the client has given written authorization permitting the investment advisory fees to be paid directly from the client's account. The qualified custodian will deliver an account statement to the client at least quarterly. The account statements will show all disbursements of investment advisory fees from the account. Clients should review all statements for accuracy.

### **Termination of the Investment Advisory Agreement**

Either party may terminate the Investment Advisory Agreement upon 30 days written notice to the other party. The investment advisory fee will be pro-rated for the billing period upon notice of cancellation. Calton will refund any unearned fees to the client.

### **Wrap Fee Program Disclosures**

1. The client should be aware that participating in a wrap fee program may cost more or less than the cost of purchasing investment advisory, brokerage, and custodial services separately and/or from the services offered by other advisers or broker/dealers.
2. Calton and its IARs receive compensation as a result of the client's participation in the wrap-fee program. This compensation may be more than the amount Calton and its IARs would receive if the client paid separately for investment advice, brokerage, and other services. Therefore, a conflict of interest exists because Calton and its IARs have a financial incentive to recommend the P-MAP program.

3. P-MAP may create a potential conflict of interest between the client and Calton. The client should be aware that Calton may have purchased or sold securities in the client's account, because Calton paid the transaction costs associated with trades directed to the custodian.

### **Additional Fees and Expenses**

As part of Calton's investment advisory services to clients, Calton may invest, or recommend that clients invest in mutual funds and Exchange Traded Funds ("ETFs"). The fees that the client pays to Calton for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or ETFs which are described in detail in each mutual fund's prospectus to their shareholders. Mutual fund fees will generally include a management fee and other fund expenses.

### **Brokerage Practices**

While clients are free to choose any broker-dealer or other financial institution to open and hold the securities in their accounts and execute transactions, Calton uses the services of certain clearing firms and custodians to conduct its commission brokerage transactions and investment advisory transactions. Calton clears its brokerage transactions through Hilltop Securities, Inc. ("HTS") and National Financial Securities ("NFS") who maintain brokerage and investment advisory accounts on behalf of Calton and its clients. Calton also uses TD Ameritrade ("TDA") as a custodian for its investment advisory clients. Therefore, Calton and/or its IARs will primarily recommend the client to open an account through HTS, NFS, or TDA to maintain an investment advisory relationship with Calton or its IARs. The clearing and custodian relationships Calton has with HTS, NFS, and TDA create a conflict of interest, as Calton and its IARs may receive incentives, including sharing in the expenses and fees charged to the client for recommending that the client maintain Calton accounts and the client may pay higher commissions, charges, fees and/or trading costs than may be available at other broker/dealers, clearing firms or custodians.

If the client desires to execute transactions through another broker/dealer, Calton will review the transactions for best execution. Price is not the sole factor Calton considers when evaluating for best execution. Calton also considers the broker/dealer's ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, and other services. In recognition of the value of research services and additional brokerage products and services the recommended broker-dealer or custodian provides, the client may pay higher commissions and/or trading costs than those that may be available elsewhere.

If the client engages the services of a TPMM investment adviser or participates in a TPMM program, as described under the "Advisory Services" heading above, the client will be required to use the brokerage and/or custodial services of the firms used by the TPMM investment adviser.

### **Research and Other Benefits**

Calton may receive benefits from recommending certain broker-dealer and/or custodians. These benefits do not depend on the amount of transactions Calton directs to the broker-dealer and/or custodian. These benefits may include:

1. A dedicated trading desk that services our clients, a dedicated service group and an account services manager dedicated to our accounts,
2. access to a real time order matching system,
3. ability to block client trades, electronic download of trades, balances and positions in the broker- dealer/custodian's portfolio management software,
4. access to an electronic interface with broker-dealer and/or custodian's software, duplicate and



- batched client statements, confirmations and year-end summaries, and
5. the ability to have investment advisory fees directly debited and deducted from client accounts (in accordance with federal and state requirements.)

Calton participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., ("TDA") member FINRA and SIPC and the National Futures Association. TDA is not affiliated with Calton. TDA offers services to independent Registered Investment Advisers, which include custody of securities, trade execution, clearance and settlement of transactions. Calton receives benefits from TDA. Therefore, Calton and/or its IARs have a conflict of interest for recommending that their clients maintain accounts with TDA through its participation in the Program. Calton may recommend TDA to clients for custody and brokerage services. There is no direct link between Calton's participation in the program and the investment advice Calton and/or its IARs give to our clients, but Calton and its IARs do receive economic benefits through its participation in the TDA platform 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):

1. receipt of duplicate client statements and confirmations; research related products and tools;
2. consulting services;
3. access to a trading desk serving advisor participants;
4. access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts);
5. the ability to have advisory fees deducted directly from client accounts;
6. access to an electronic communications network for client order entry and account information;
7. access to mutual funds with no transaction fees and to certain institutional money managers; and
8. discounts on compliance, marketing, research, technology, and practice management products or services provided to Calton by third party vendors.

TD Ameritrade may also have paid for business consulting and professional services to the benefit of Calton and/or its IARs. Some of the products and services made available by TD Ameritrade through the program may benefit Calton and/or its IARs but may not benefit Calton's clients' accounts. These products or services may assist Calton and its IARs in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Calton and its IARs manage and further develop its business enterprise. The benefits received by Calton and/or its IARs 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, Calton endeavors at all times to put the best interests of its clients first. Clients should be aware that the receipt of benefits by Calton and its IARs creates a conflict of interest and may indirectly influence our choice of using TD Ameritrade for custody and brokerage services for Calton's clients.

### **Directed Brokerage**

Depending on the particular asset management program that the client chooses the client may instruct Calton to use one or more brokers for the execution of transactions in their accounts. Some asset management programs require the client to use a particular broker/dealer in order to participate in the program. If the client chooses to direct Calton to use a particular broker, the client should understand that this might prevent Calton from aggregating trades with other client accounts. This practice may also prevent Calton from obtaining favorable net price and execution, negotiating

commissions, obtaining volume discounts. Under these circumstances, the client may pay higher commission charges than other clients. When directing brokerage business, the client should consider whether the commission expenses, execution, clearance, and settlement capabilities obtained through the broker are acceptable and competitive in comparison to those that Calton would obtain.

### **Block Trading**

Calton may combine multiple orders for shares of the same securities purchased for investment advisory accounts it manages. This practice is referred to as "block trading". Calton will combine orders for clients' accounts held at the same custodian only. When block trading, Calton will distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to Calton's discretion regarding market fluctuations and conditions, Calton when combining orders each participating account will receive an average price per share for all transactions. Block trading does not reduce the clients' transaction costs.

Accounts traded at different custodians will typically receive different prices. In situations where a block order is only partially filled by the executing broker-dealer, Calton allocates the order to all participating accounts on a pro rata basis.

### **Trade Errors**

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

Calton is not responsible for account errors and/or losses that occur where Calton and/or its IARs have used our best efforts to execute trades in a timely and efficient manner. If a trade or some portion of a trade is not executed or an electronic system processing error occurs which results in the account not being traded at the same time or at the same price as others, and the occurrence is not a result of Calton's failure to execute or follow its trade procedures, the resulting loss will not be considered a trading error by Calton.

As disclosed in their prospectuses, mutual fund companies reserve the right to refuse to execute trades if in the mutual fund company's sole judgment, the trade(s) would jeopardize the value of the mutual fund. Calton has no authority to change, alter, amend or negotiate any provision in a mutual fund prospectus. Calton is not responsible for trades that are not properly executed by any clearing firm, custodian, mutual fund or insurance company when an order has been properly submitted by to Calton. Calton is not responsible for a unilateral adverse decision by a mutual fund or insurance company to restrict and/or prohibit mutual fund asset management programs.

Aggregated orders may include transactions for registered investment companies, employee benefit plans and private investment securities, including limited partnerships or limited liability companies in which Calton's principals or employees are among the investors, but these accounts will not be given preferential treatment.

## **Item 5 - Account Requirements and Types of Clients**

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

To open and maintain a P-MAP or I-MAP account, Calton generally requires that the client have an initial account value of at least \$50,000. Calton may accept clients with smaller account values at its discretion.

## **Item 6 - Portfolio Manager Selection and Evaluation**

Calton is the sponsor and portfolio manager for the P-MAP and I-MAP programs. Should Calton choose to use one or more Third-Party Portfolio Managers ("TPMMs"), the review and evaluation of each TPMMs will be based on data and information from several sources, including the manager, and independent vendors who provide information and performance data on the TPMMs. Calton will review the TPMMs' historical performance, investment philosophies, investment styles, historical volatility data and correlation across asset classes. Calton will also review the TPMMs' Form ADV Part 2 disclosure brochure when deciding to use TPMMs.

### **Types of Investments**

Calton and/or its IARs may recommend many types of securities, including but not limited to individual stocks and bonds, mutual funds, closed end funds, Exchange Traded Funds ("ETFs"), fixed and variable insurance products, and non-traded alternative products, including but not limited to Real Estate Investment Trusts ("REITs"), Business Development Companies ("BDCs") private placements and Direct Participation Programs ("DPPs").

Calton and/or its IARs do not necessarily recommend one particular type of security over another since each client has different financial situations, investment objectives, investment experience, time horizons and tolerance for risk. Each type of security has its own risks. Each type of security has its own risks. Similar investment types can have risks that vary widely. Generally, the higher the anticipated or expected return of an investment, the higher the potential risk of loss may be associated with it.

Calton and/or its IARs may recommend certain types of alternative investments. Generally, recommendations to alternative investments and strategies are for clients who have higher liquid net worth, have significant investment experience and are limited to certain percentages in the client's account. Clients investing in alternative investments and strategies will receive additional disclosure information regarding the risks involved with these types of investments.

For certain clients, Calton and/or its IAR may recommend a percentage of the client's portfolio be invested in illiquid or non-traded investment products, including Limited Partnerships, Direct Participation Programs ("DPPs"), Business Development Companies ("BDCs") and/or Real Estate Investment Trusts (REITs). Prior to recommending any non-traded investment products, Calton and/or its IAR will discuss with the client the differences and the risks associated with non-traded investments. Calton and/or its IAR does not charge any commissions for the purchase of these types of products, and recommends only investment advisory share classes if they are purchased in investment advisory accounts.

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

Calton may charge side-by-side management or performance-based fees to certain clients under the

terms of the Investment Advisory Agreement. Generally, clients having a net worth greater than \$2,200,000 or clients where Calton manages at least \$1,100,000 in assets upon account opening may be charged performance-based fees under the terms of the Investment Advisory Agreement.

Performance-based fees are investment advisory fees that are charged based on a share of capital gains or capital appreciation of a client's account. The fixed portion of the investment advisory fee will not exceed 25% of the account balance payable quarterly in advance. The performance investment advisory fee is generally equal to a maximum of 10% of the net increase in the account value (adjusted for additional investments, redemption and other non-performance related changes) for the preceding month (or portion thereof if less than a month). In general, Performance-based investment advisory fees are calculated and charged quarterly in arrears. In certain instances, performance-based investment advisory fees are calculated monthly and charged quarterly in arrears, therefore an account may incur an investment advisory fee for a given month during a quarter even though the account value at the quarter-end may be below the account value at the beginning of the quarter. The client is provided with a detailed performance-based investment advisory fee calculation on a quarterly basis.

Investment advisory fees will be adjusted for deposits and withdrawals made during the 12-month period. In the event the client makes a complete withdrawal from the account on a date other than year-end, investment advisory fees will be due at the time of withdrawal. Refer to the Fees and Compensation section above for additional information on performance-based investment advisory fees.

Calton manages accounts that are charged performance-based investment advisory fees while at the same time managing accounts that may also have similar objectives that are not charged performance-based investment advisory fees. Charging performance-based investment advisory fees and non-performance based investment advisory fees at the same time creates a conflict of interest, which is described in the following paragraphs.

Performance-based investment advisory fees create an incentive for Calton to make recommendations for investments that may be considered having more risk or may be more speculative than would be the case without the performance-based fee arrangement.

Performance-based investment advisory fees may also create an incentive for Calton and/or its IAR to overvalue investments which do not have a readily obtainable market value. In order to address this conflict, Calton has adopted policies and procedures that require the firm to "fairly value" any investments, which do not have a readily obtainable market value. It may also cause Calton to recommend accounts where it charges a performance-based fee over accounts that it does not charge a performance-based fee. Calton may have an incentive to allocate certain securities, such as initial public offerings to clients who are charged performance-based fees over clients who are charged asset-based fees only. To address this conflict of interest, Calton has adopted policies and procedures that require the firm to allocate securities to clients' accounts without regard to whether the account pays performance-based versus asset-based investment advisory fees.

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

Calton uses one or more of the following methods of analysis or investment strategies when providing investment advice to the client:

1. Charting Analysis - involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict

future price movements based on price patterns and trends.

2. Fundamental Analysis - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.
3. Technical Analysis - involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.
4. Cyclical Analysis - a type of technical analysis that involves evaluating recurring price patterns and trends.
5. Long Term Purchases - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
6. Short Term Purchases - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year to take advantage of the securities' short-term price fluctuations.
7. Margin Transactions - a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.
8. Covered Options Writing - As a part of its portfolio management investment strategy, Calton and/or its IARs may recommend that the client sell covered calls against positions in the client's account to manage downside market risk and generate income returns.

Calton's investment strategies and advice may vary depending upon each client's specific financial situation. Calton determines investments and allocations based upon the client's age, financial situation, investment objectives, investment experience, risk tolerance, time horizon, liquidity needs, and other relevant factors. The investment restrictions and guidelines required by each client may affect the composition of their securities portfolio.

### **Charting, Fundamental, and Technical Analysis:**

The risk of market timing based on charting and technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy. The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance. The risk of cyclical analysis is that economic and/or business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

### **Frequent Trading:**

Calton may use investment strategies that involve buying and selling securities frequently in an effort to capture market gains and/or to help avoid losses during period of market volatility. Frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.

### **Exchange-Traded Funds ("ETFs"):**

ETFs are typically investment companies that are registered as investment companies under the Investment Company Act of 1940. ETFs may be structured as open end mutual funds or Unit Investment Trusts ("UITs"). ETFs differ from open end mutual funds in that ETF shares are listed on a securities exchange. ETF shares can be bought and sold throughout the trading day the same as shares of other publicly-traded companies. ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread." The spread fluctuates over time based on the ETF's trading volume and market liquidity. Although many ETFs are registered as an investment companies under the Investment Company Act of 1940 some ETFs particularly those that invest in commodities are not registered as investment companies. ETFs may be closed and liquidated at the discretion of the issuing company.

### **Exchange-Traded Notes ("ETNs"):**

ETNs are senior unsecured debt obligation designed to track the total return of an underlying market index or other benchmark. ETNs may be linked to a variety of assets, for example, commodity futures, foreign currency and equities. ETNs are similar to ETFs and are listed on an exchange and can typically be bought or sold throughout the trading day. ETNs are not mutual funds and do not have a net asset value. The ETNs trade at the prevailing market price. Some of the more common risks of ETNs are as follows:

1. The repayment of the principal, interest (if any), and the payment of any returns at maturity or upon redemption are dependent upon the ETN issuer's ability to pay.
2. The trading price of the ETN in the secondary market may be adversely impacted if the issuer's credit rating is downgraded. The index or asset class for performance replication in an ETN may or may not be concentrated in a specific sector, asset class or country and may therefore carry specific risks.
3. ETNs may be closed and liquidated at the discretion of the issuing company.

### **Leveraged and Inverse ETFs, ETNs and Mutual Funds:**

Leveraged ETFs, ETNs and some mutual funds sometimes referred to as "ultra" or "2x" are designed to provide a multiple of the underlying index's return, typically on a daily basis. Inverse products are designed to provide the opposite of the return of the underlying index, typically on a daily basis. Leveraged and inverse ETFs are different from and can be riskier than non-leveraged ETFs, ETNs and mutual funds. Leveraged and inverse ETFs are designed to provide returns that generally correspond to the underlying index, but they often do not replicate the performance of the underlying index, because of market fluctuations and volatility associated with them. To accomplish their objectives, leveraged and inverse ETFs may use a range of strategies, including swaps, futures contracts and other derivatives. Leveraged and inverse ETFs may not be diversified and can be based on commodities or currencies.

Leveraged and inverse ETFs may have higher expense ratios and be less tax-efficient than non-leveraged ETFs, ETNs and mutual funds. Daily resetting of the asset values of leveraged and inverse ETFs may add to the volatility and fluctuations. As a result, this may prevent leveraged and inverse ETFs from achieving their stated investment objective. In addition, compounding of the returns can produce a divergence from the underlying index over time, in particular for leveraged and inverse ETFs. In highly fluctuating and volatile markets with large positive and negative swings, return distortions can be magnified over time.

Because of the potential for large fluctuations, leveraged and inverse ETFs that have a daily rest option should be actively monitored daily. Leveraged and inverse ETFs are generally not appropriate

as an intermediate or long-term holding and Calton and/or its IARs do not recommend them to their investment advisory clients.

### **Margin:**

Buying on margin means borrowing money from a broker to purchase stock. Margin trading allows the client to buy more stock. An initial investment of at least \$2,000 is required for a margin account. This deposit is known as the minimum margin. Calton and/or its clearing firms that custody clients' accounts may require higher initial margin amounts. Once the account is approved the client may borrow up to 50% of the purchase price of a stock. This portion of the purchase price is known as the initial margin. Not all stocks qualify to be bought on margin. When selling a stock in a margin account, the proceeds part or all of the proceeds may be used as repayment of the loan until it is fully paid. If the account balance falls below a minimum required level, there is maintenance margin, which is the minimum account balance that a client must maintain in the account. The client may need to deposit additional funds or sell stock to pay the outstanding loan balance. This is called a margin call.

Clients pay interest on the outstanding loan balances. The interest charges are applied to the clients' accounts and the margin debt balance amount increases over time as interest charges accrue. In volatile markets, prices of stocks may decline quickly increasing the margin debit balance. This creates a conflict of interest, as Calton and/or its IAR receive investment advisory fees on securities that are on margin. Therefore, Calton and/or its IARs generally will not recommend the use of margin in fee-based investment advisory accounts. Any margin use in a fee-based investment advisory account must be approved by a home office supervisor.

### **Options:**

Options are complex securities that involve risks and are not suitable for many investors. Option trading can be speculative in nature and carry risk of loss of the entire premium invested. It is generally recommended that clients only invest in options with capital that they can risk.

An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date called the expiration date. The two main types of options are calls and puts. A call gives the holder the right to buy an asset at a certain price within a specific period of time. Buyers of calls have the expectation that the price of the underlying stock will increase before the option expires resulting in the value of the stock call option more valuable.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. Buyers of puts have the expectation that the price of the stock will fall before the option expires resulting in the value of the stock put option more valuable.

Calton and its IARs do not recommend the purchases of calls and puts in discretionary investment advisory accounts. The client may purchase calls and puts on an unsolicited basis in his or her investment advisory account. However, if they client desires to use an active options strategy to purchase call and puts, it should be executed in a commission-based brokerage account.

As a part of its portfolio management investment strategy, Calton and/or its IARs may recommend that the client sell covered calls against positions in the client's investment advisory account to help manage downside market risk and to generate income returns.

### **Tax Implications**

All investment strategies have different significant tax implications. Unless Calton and the client specifically agree in writing, tax efficiency is not the primary consideration in the management of the

client's account. Regardless of the client's account size Calton recommends that the client consult with a qualified tax professional for the tax implications prior to opening the account and the purchasing and selling of securities in the client's account.

As a result of revised IRS regulations, custodians and broker-dealers began reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. The client's custodian will default to the First-In First-Out ("FIFO") accounting method for calculating the cost basis of the client's investments. Clients are responsible for contacting their own qualified tax professional to determine if the FIFO accounting method is the right tax reporting method for the current. If the client's qualified tax professional believes another accounting method is more appropriate for the client, he or she must provide written notice to Calton and Calton will notify the custodian of the client's account to use the selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Investing in securities involves the potential for risk of loss that clients should be aware of and be prepared to bear. Calton does not represent or guarantee that its investment advisory services or methods of analysis can or will predict future results successfully, identify market tops or bottoms, or prevent clients from losses due to market fluctuations, corrections or declines. Calton and its IARs cannot offer any guarantees that the goals and objectives of clients' accounts will be achieved. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

As disclosed under the "Advisory Business" section of Calton's Form ADV Part 2 A Disclosure Brochure, Calton and/or its IARs may recommend many types of securities. Calton and/or its IARs do not necessarily recommend one particular type of security over another since each client has different needs and tolerance for risk. Each type of security has its own risks. Similar investment types can have risks that vary widely. Generally, the higher the anticipated return of an investment, the higher the potential risk of loss may be associated with it.

Calton and/or its IARs may recommend certain types of alternative investments. Generally, recommendations to alternative investments and strategies are for clients who have higher liquid net worth, have significant investment experience and are limited to certain percentages in the client's account. Clients investing in alternative investments and strategies will receive additional disclosure information regarding the risks involved with these types of investments.

For certain clients, Calton and/or its IAR may recommend a percentage of the client's portfolio be invested in illiquid or non-traded investment products, including Limited Partnerships, Direct Participation Programs ("DPPs"), Business Development Companies ("BDCs") and/or Real Estate Investment Trusts (REITs). Prior to recommending any non-traded investment products, Calton and/or its IAR will discuss with the client the differences and the risks associated with non-traded investments. Calton and/or its IAR does not charge any commissions for the purchase of these types of products, and recommends only investment advisory share classes if they are purchased in investment advisory accounts.

### **Voting Client Securities**

Calton and its IARs do not vote proxies on the client's behalf. The client is responsible for receiving and voting proxies for the securities maintained in the client's account.



For T-MAP accounts, depending on the TPMM's proxy voting policies and procedures, the TPMM may require that the client appoint them as their agent and attorney-in-fact with discretion to vote proxies on the client's behalf. Please carefully review the TPMM's disclosure brochure to understand their proxy voting policies and procedures.

## **Item 7 - Client Information Provided to Portfolio Managers**

The Calton IAR assigned to the client accounts will have discussions with the client to obtain the client's investment goals and objectives and develop personal investment recommendations to the client. Calton and/or its IAR may communicate directly with the portfolio manager managing the client's account. Calton and/or its IAR may also communicate subsequent changes to the portfolio manager as they occur.

## **Item 8 - Client Contact with Portfolio Managers**

Client's may contact Calton and/or their IAR with any question regarding the client's account. Calton and/or its IAR can also arrange a call or meeting with the portfolio manager of their accounts.

## **Item 9 - Additional Information**

### **Registration as Broker-Dealer**

In addition to being registered as a Registered Investment Adviser with the SEC, Calton is also registered as a broker-dealer with the SEC and is a member FINRA and SIPC. As an introducing broker, Calton executes retail securities transactions in commission-brokerage accounts and directly with product sponsors for its clients.

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

As a broker-dealer, Calton's IARs providing investment advice on may be Registered Representatives ("RRs") registered with Calton. When acting as RRs they may receive commission-based compensation in connection with the purchase and sale of securities. The commission-based compensation for the sale of investment company products, such as mutual funds may include the payment of "12b-1 fees," from the product sponsor. 12b-1 fees are fees paid by product sponsors for marketing and distribution expenses that are passed on to the broker/dealer. Calton and its IARs acting as RRs receive 12b-1 fees from mutual fund product sponsors. Beginning in June 2018 Calton adopted a policy of crediting back to each client's account any 12b-1 fees received by Calton from the sale of mutual funds shares. Calton adopted this policy to help eliminate the conflicts of interests that previously existed in recommending that clients purchase classes of mutual funds that paid 12b-1 fees in fee-based investment advisory when there was a share class in the same mutual fund that did not charge 12b-1 fees.

Commissions or other compensation earned by Calton and its IARs acting as RRs is separate and in addition to the investment advisory fees charged in investment advisory accounts. The receipt of commissions and other compensation is a conflict of interest, because IARs providing investment advice who are also RRs have an incentive to recommend securities transactions for the purpose of generating commissions rather than solely based on the need of the client. This conflict of interest exists even with the elimination of the conflict of interest relating to the payment of 12b-1 fees discussed above. Calton determines whether each proposed commission-paying transaction is suitable for the client and is consistent with its fiduciary obligation to act in the clients' best interests. Clients are under no obligation, contractually or by agreement to purchase securities products through

any IAR registered with Calton. When transferring securities into an account, the client should consider and discuss with his or her IAR the following:

1. Whether a commission was previously paid by the client to purchase a security held in the client's account;
2. Whether the client wishes the securities held in the account should be managed by the IAR in a fee-based investment advisory account; or
3. Whether the client wishes to hold the security in a commission-based brokerage account that is not managed and is not subject to an investment advisory fee.

### **Corporate Insurance Agency and Licensed Insurance Agents**

In addition to being registered as an investment adviser and broker/dealer, Calton is also licensed as an insurance agency in states in which conducts insurance business. IARs licensed as insurance agents recommend insurance products from a variety of insurance companies. IARs will earn commission-based compensation from the sales of insurance products to clients. Insurance commissions earned by IARs are separate from the investment advisory fees charged by Calton and/or the IARs. Please see the "Fees and Compensation" section in this brochure for more information on the compensation received by insurance agents who are affiliated with our firm.

### **Other Outside Business Activities**

Some IARs own or are affiliated with independent Registered Investment Adviser ("RIA") firms outside of Calton. These firms are not affiliated with Calton and their activities are not supervised by Calton. Typically, IARs that own or are affiliated with an independent RIA may offer and provide different investment advisory services, including fee based financial planning services through the RIA. The investment advisory fees may be more or less than what Calton charges. Investment advisory fees and financial planning services fees provided by the IAR through their own independent RIA are separate and distinct from any fees paid to Calton. Clients that engage an IAR through an independent RIA firm will receive a copy of the independent outside RIA firm's disclosure documents.

Certain IARs may have other outside business activities and offer services, such as tax preparation, accounting, legal, real estate, employee benefits consulting, or other businesses, that are outside business activities from their registration as an IAR of Calton. Calton does not supervise or receive compensation from these other outside business activities conducted by the IARs engaging in these outside business activities. IARs engaging in these other outside business activities do so independently of their registration with Calton.

### **Recommendation of Other Advisers**

Calton may recommend that the client use a third party money manager ("TPMM") investment adviser based on the client's needs and best interests. Calton will receive compensation from the TPMM for recommending that the client use the TPMM's investment programs and services. To the extent Calton and/or its IARs share in the investment advisory fees the client pays to the TPMM, these compensation arrangements present a conflict of interest because Calton and its IARs have a financial incentive to recommend the services of the TPMM. Clients are not obligated, contractually or by agreement to use the services of any TPMMs recommend.

### **Unaffiliated Third Party Custodians**

Calton may recommend or require that clients establish investment advisory accounts with unaffiliated third party custodians and/or broker-dealers ("Custodians"), including but not limited to Hilltop Securities, Inc., National Financial Securities, Charles Schwab & Co., Inc., and TD

Ameritrade to maintain custody of clients' assets and to effect trades for their accounts. The final decision to custody assets with any Custodian is at the discretion of the client, including those accounts covered under ERISA or Internal Revenue Service ("IRS") rules governing Individual Retirement Accounts ("IRAs"). Custodians provide Calton with access to its institutional trading and custody services, which are typically not available to retail commission brokerage clients.

Custodians Calton has agreements with offer brokerage services, execution, custody, research, analyses and reports, and access to mutual funds and other investments that otherwise generally available would only be made available to institutional investors.

For Calton client accounts, the Custodians generally do not charge separately for their custody services, but they are compensated by account owners through commissions and/or other transaction-related or asset-based fees for securities trades that are executed through the Custodian.

Custodians may also make available to Calton other products and services that benefit Calton, but may not benefit the client. These benefits may include national, regional or Calton specific educational events organized and/or sponsored by the Custodians. Other potential benefits may include occasional business entertainment of personnel of Calton by the Custodians, including meals, invitations to sporting events, and other forms of entertainment, some of which may accompany educational opportunities.

Additional products and services offered through Custodians assist Calton in managing and administering its clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of Calton's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of Calton's accounts, including accounts not maintained at Custodians. Custodians also make available to Calton other services intended to help Calton manage and further develop its business. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, insurance, and marketing. In addition, Custodians may make available, arrange and/or pay vendors for these types of services rendered to Calton by independent third parties.

Custodians may also discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Calton. As a fiduciary, Calton endeavors to act in its clients' best interests. Calton's recommendation or requirement that clients maintain their assets in accounts at Custodians may be based in part on the benefit to Calton of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by the Custodians. Offering these additional services through Custodians may create a potential conflict of interest to Calton's clients.

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

Calton strives to comply with applicable laws, rules and regulations governing its business practices. Calton's Code of Ethics includes guidelines for professional standards of conduct for persons associated with Calton. Calton's goal is to protect the clients' best interests at all times and to demonstrate its commitment to the fiduciary duties of honesty, good faith, and fair dealing with the client. All persons associated with Calton are expected to adhere strictly to these guidelines. Calton's

Code of Ethics also requires that certain persons associated with the firm periodically submit reports of their personal securities transactions and account holdings to the firm for review. Persons associated with Calton are also required to report any violations to the Code of Ethics. Calton maintains and enforces written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about clients and their account holdings by persons associated with Calton.

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

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

It is Calton's policy that neither Calton or its IARs have any material financial interest in client transactions and accounts beyond providing investment advisory services as disclosed in this brochure.

### **Personal Trading Practices**

Calton and/or its IARs may buy or sell securities for clients at the same time we buy or sell the same securities for our own accounts. Calton may also combine its orders to purchase securities with client orders to purchase securities known as block trading. Please refer to the "Brokerage Practices" section in Calton's ADV Part 2 A Disclosure brochure for information on personal trading practices.

A conflict of interest exists because Calton and/or its IARs have the ability to execute transactions ahead of the client and potentially receive more favorable execution prices than the client will receive. To eliminate this conflict of interest, it is Calton's policy that neither the firm or its IARs will have priority over client orders in the purchase or sale of securities.

### **Review of Accounts**

All investment advisory portfolio management accounts are monitored by the IAR assigned to the account either on an ongoing or periodic basis as agreed under the terms of Investment Advisory Agreement. The IAR is required to meet with the client no less than annually. The client may request to meet with the IAR at any time.

Calton has designated certain supervisors who are responsible for reviewing clients' accounts. The investment advisory account form is approved by a designated supervisor who is a principal of Calton. Designated supervisors will also review transactions in clients' account on an ongoing basis.

Clients will receive trade confirmations and monthly or quarterly statements from the clearing firm and/or custodian(s).

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

As disclosed under the "Fees and Compensation" section in Calton's Form ADV Part 2 A Disclosure brochure, IARs providing investment advice may also be licensed as RRs and insurance agents. For information on the conflicts of interest and how Calton addresses these conflicts, please refer to the "Fees and Compensation" section of Form ADV Part 2A.

Calton directly compensates non-employee (outside) consultants, individuals, and/or entities for soliciting clients to Calton. In order to receive a solicitor's fee from Calton, solicitors must comply with

the requirements of the jurisdictions in which they operate. If the client was referred to Calton by a Solicitor, the client is provided a copy of Calton's disclosure brochure along with the Solicitor's Disclosure Statement at the time of the referral. If the client becomes a Calton client, the Solicitor that referred you to Calton will generally receive either a percentage of the investment advisory fee the client pays to Calton for as long as the client maintains an account with Calton or until such time as the agreement with the Solicitor terminates. The Solicitor may receive a one-time, flat referral fee when the client signs the Investment Advisory Agreement with Calton. The client does not pay additional fees above Calton's investment advisory fees from the Solicitor's referral arrangement. Referral fees paid to a Solicitor are contingent upon the client entering into an Investment Advisory Agreement with Calton.

Calton and the Solicitor have a financial incentive to recommend Calton to the client for Calton's investment advisory services. This creates a conflict of interest, but the client is not obligated to retain Calton for investment advisory services. Comparable services and/or lower fees may be available through other firms.

Solicitors that refer business to more than one investment adviser may have a financial incentive to recommend advisers with more favorable compensation arrangements. Calton requires Solicitors to disclose to Calton's client if the Solicitor has multiple referral relationships and that comparable services may be available from other advisers for lower fees and/or where the Solicitor's compensation may be less.

### **Financial Information**

Calton does not have any financial condition or impairment that would prevent the firm from meeting our contractual commitments to its clients. Calton does not take physical custody of client funds or securities, or serve as trustee or signatory for clients' accounts. Calton does not require the prepayment of more than \$1,200 in investment advisory fees six or more months in advance. Calton has not filed a bankruptcy petition at any time in the past ten years. Therefore, Calton is not required to include a financial statement with its disclosure brochure.

### **Disciplinary Information**

On September 14, 2016, without admitting or denying the findings, Calton entered into an Acceptance, Waiver and Consent with FINRA and was fined \$5,000 based on findings that it failed to report transactions in Trade Reporting and Compliance Engine (TRACE)-eligible securitized products to TRACE within the time required by FINRA rule 6730(a).

On March 11, 2019, Calton signed a consent order with the SEC to cease and desist from committing or causing any violations and any future violations of sections 206(2) and 207 of the Investment Advisers Act of 1940. Calton was censured, and paid disgorgement of \$278,157.85 and prejudgment interest of \$26,886.76, and was required to take undertakings enumerated in the offer of settlement.

Calton elected to self-report under the SEC share class selection disclosure ("SCSD") initiative. As a result of the self-reporting, Calton consented to the SEC order. Calton was one of 79 investment advisers included in the SEC's initial release of SCSD orders. As ordered, beginning in June 2018, Calton adopted a policy of crediting back to each client's account any 12b-1 fees received by Calton or any of its representatives from the sale of mutual funds in investment advisory accounts.

The Order found that Calton breached its fiduciary duty to clients through inadequate disclosures in connection with the sale of mutual fund share classes and the 12b-1 fees Calton received between

January 1, 2014 and June 7, 2018 (the "Relevant Period"). During the Relevant Period, Calton purchased, recommended, or held in clients' investment advisory accounts mutual fund share classes that charged 12b-1 fees instead of lower-cost share classes of the same funds for which the clients were eligible. During the Relevant Period, Calton received 12b-1 fees in connection with these investments. Calton failed to disclose on its Form ADV or otherwise the conflicts of interests related to (a) Calton's receipt of 12b-1 fees, and/or (b) Calton's selection of mutual fund share classes that paid 12b-1 fees.

On December 18, 2020, the firm was censured and fined \$18,000 and required to update its WSPs with respect to TRACE reporting. Without admitting or denying the findings, the firm consented to the sanctions and to the entry of findings that it reported to TRACE customer allocation transactions in trace-eligible securitized products that should have been reported as block transactions. The findings stated that the firm executed block trades in trace-eligible securities with an investment advisor not affiliated with the firm. The block orders were then allocated to the investment advisor's customers' accounts, resulting in customer allocation transactions. The firm in turn reported to trace the customer allocation transactions when it should have only reported the block trades it executed with the investment advisor. The findings also stated that the firm failed to report to trace the correct capacity and/or commission for transactions in TRACE-eligible securities.

On May 18, 2021 Calton was censured, and fined \$250,000 and ordered to pay \$472,007.20, plus interest in restitution to customers and required to retain an independent outside consultant. During the period from February 2014 to February 2020, the firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with the suitability obligations in connection with sales to customers who purchased non-traditional and volatility-linked exchange traded products ("ETPs") in violation of NASD rule 3010(a) and FINRA rules 2111, 3110(a) and 2010. During the period from January 1, 2018 to June 21, 2018, the firm failed to offer retail customers educational materials prior to their first purchases of collateralized mortgage obligations ("CMOs") in violation of FINRA rules 2216(b)(2) and 2010, and failed to establish, maintain and enforce a supervisory system, including written supervisory procedures ("WSPs"), reasonably designed to achieve compliance with FINRA rule 2216(b)(2), in violation of FINRA rules 3110 and 2010. The firm also unreasonably assigned an individual to supervise a registered representative despite the presence of a conflict of interest, in violation of FINRA rules 3110(a)(6), 3110(b)(6), and 2010, and it allowed a non-registered person to accept and enter securities orders, in violation of NASD rule 1031 and FINRA rules 1210, 3110, and 2010. The firm has revised or is in the process of revising its WSPs, processes and supervisory systems to address the infractions related to non-traditional and volatility ETPs and offering to retail customers educational materials prior to their first purchase of CMOs. The firm has updated its supervisory system enabling it to identify and flag ETPs and CMOs transactions. The firm has remedied the conflict relating to supervision and the non-registered person no longer accepts and enters securities orders.

More information concerning Calton's disciplinary disclosures can be obtained from FINRA's BrokerCheck link at: [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

### **Client Privacy Information**

Calton views protecting clients' private information as a top priority. Pursuant to applicable privacy requirements, Calton has established policies and procedures to help ensure that Calton keeps its clients' confidential personal information private and secure.

Calton does not disclose any non-public personal information about its clients to any non-affiliated third parties, except as permitted by law. In the course of servicing clients' accounts, Calton may share clients' information with its service providers as may be necessary to open and maintain its

clients' account(s), including with its clearing firms, custodians, broker/dealers, TPMMs, transfer agents, portfolio managers, technology firms, accountants, consultants, and attorneys.

Calton restricts internal access to non-public personal information about its clients to employees who need that information in order to provide products or services to the client. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to help ensure the client's confidentiality. Calton will not sell information about the client or his or her accounts to any other parties. Calton does not share client information unless it is required to process a transaction, at the client's request or required by law.

The client will receive a copy of Calton's privacy notice prior to or at the time the Investment Advisory Agreement is signed with Calton. Thereafter, Calton will deliver a copy of the current Privacy Policy Notice to clients on an annual basis. Please contact Calton's main office at the telephone number on the cover page of this disclosure brochure regarding this policy.

### **Trade Errors**

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

Calton is not responsible for account errors and/or losses that occur where Calton and/or its IARs have used our best efforts to execute trades in a timely and efficient manner. If a trade or some portion of a trade is not executed or an electronic system processing error occurs which results in the account not being traded at the same time or at the same price as others, and the occurrence is not a result of Calton's failure to execute or follow its trade procedures, the resulting loss will not be considered a trading error by Calton.

As disclosed in their prospectuses, mutual fund companies reserve the right to refuse to execute trades if in the mutual fund company's sole judgment, the trade(s) would jeopardize the value of the mutual fund. Calton has no authority to change, alter, amend or negotiate any provision in a mutual fund prospectus. Calton is not responsible for trades that are not properly executed by any clearing firm, custodian, mutual fund, or insurance company, when an order has been properly submitted by to Calton. Calton is not responsible for a unilateral adverse decision by a mutual fund or insurance company to restrict and/or prohibit mutual fund asset management programs.

### **Class Action Lawsuits**

Calton does not determine if securities held in clients' accounts are the subject of a class action lawsuit or whether the client is eligible to participate in class action settlements or litigation. Calton does not initiate or participate in litigation to recover damages on its clients' behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held in the client's accounts.

If Calton receives written or electronic notice of a class action lawsuit, settlement or verdict affecting securities of its clients, Calton will forward all notices, proof of claim forms and other materials, to the client. Electronic communication is permitted where appropriate, and the client has authorized Calton to contact him or her to send communications electronically.