

Part 2A of Form ADV: Disclosure Brochure

Stern Capital Management, Inc.

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This brochure provides information about the qualifications and business practices of Stern Capital Management, Inc. If you have any questions about the contents of this brochure, please contact Stuart Stern at 732-679-7050 or by e-mail at Stuart@SternCM.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Stern Capital Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 124405.

Item 2 Material Changes

No material changes have been made since Stern Capital Management, Inc.'s last update dated March 30, 2020.

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Item 4 Advisory Business

Stern Capital Management, Inc. is a Securities and Exchange Commission (SEC) registered investment advisor with its principal place of business located in New Jersey. Stern Capital Management, Inc. began conducting business in 1996 as a sole-proprietorship and incorporated in 1999, and acts as a fiduciary for our clients.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Stuart Mark Stern, President

Stern Capital Management, Inc. offers the following advisory services to our clients:

Investment Advisory Services: Our firm provides portfolio management services to clients using model asset allocation portfolios. Each model portfolio is designed to meet a particular investment goal. The accounts will be invested in mutual funds exclusively or with ETF's offered through Charles Schwab & Company or another firm who will act as a custodian. Stern Capital Management, Inc. will never act as the custodian. Clients retain individual ownership of all securities. Stern Capital Management, Inc. does not participate in wrap fee programs.

The investments will be selected from among a broad universe of mutual funds, EFT's, asset classes and style categories in accordance with a client's investment objectives.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., aggressive, moderately aggressive, moderate, moderately conservative, conservative and most conservative models). Any other securities (i.e.: individual stocks, bonds, or options) not found in the model portfolios are not recommended by the adviser and will be transacted on an unsolicited basis only. The adviser will not be responsible for monitoring the securities not found in its model portfolios.

Through personal discussions with the client in which the client's goals and objectives are established, we determine if the model portfolio is suitable to the client's circumstances. Once we determine the suitability of the portfolio, the portfolio is managed based on the portfolio's goal, rather than on each client's individual needs. Clients, nevertheless, have the opportunity to place reasonable restrictions on the types of investments to be held in their account. Some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

To ensure that our initial determination of an appropriate portfolio remains suitable and that the account continues to be managed in a manner consistent with the client's financial circumstances, we will:

1. Send quarterly written reminders to each client requesting any updated information regarding changes in the client's financial situation and investment objectives.
2. Be reasonably available to consult with the client.
3. Maintain client suitability information in each client's file.

Financial Planning: We offer financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** We review existing policies to ensure proper coverage for life, health, disability, long-term care, liability, home and automobile.
- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH & DISABILITY:** We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.
- **ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law. Stern Capital Management, Inc. is not an attorney and will not prepare documents. We will provide this service only in conjunction with the client's attorney.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals, return objectives and attitudes towards risk. We carefully review documents supplied by the client, including a questionnaire completed by the client, and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of financial plan recommendations is entirely at the client's discretion. Financial planning recommendations are not limited to any specific product or service offered.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning.

A conflict exists between the interests of the investment adviser and the interests of the client. The client is under no obligation to act upon the investment adviser's recommendation, and if the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through the investment adviser.

Amount of Managed Assets: As of December 31, 2020, Stern Capital Management, Inc. had \$189,311,437 of client's assets under management on a discretionary basis and \$212,650 of client's assets on a non-discretionary basis. Therefore, the total of client's assets under management is \$189,524,087.

Item 5 Fees and Compensation

Investment Advisory Services Management Fees: Our annual fee for Investment Advisory Services are on a fee basis. An annual asset management fee is charged based upon a percentage of the market value of the assets being managed by Stern Capital Management Inc. The annual fee varies between 0.95% and 2.00% depending upon the market value of the assets under management. The fee is charged, in advance on a quarterly basis and is deducted directly from the client's account at the beginning of each calendar quarter, based on the last day of the preceding quarter. Stern Capital Management, Inc. may also charge per account an administration fee of \$25.00 per quarter if clients combined assets of all accounts at the same custodian are below one hundred thousand dollars, and is negotiable. Clients of Stern Capital Management, Inc. will have access to institutional trading & custody services, which typically are not available to Schwab retail investors. As a Stern Capital Management, Inc. client you will have access to some investments with institutional pricing not typically available to retail clients. Stern Capital Management, Inc. avoids a potential conflict of interest by only receiving a level management fee, paid by the client, regardless of the investments used in Stern Capital's model portfolios.

Limited Negotiability of Advisory Fees: Stern Capital Management, Inc. has established the aforementioned fee range, we retain the sole discretion to set and negotiate fees on a client-by-client basis. Client facts, circumstances and needs will be considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets and related accounts, among other factors. The specific annual fee will be identified in the contract between the advisor and each client.

Fees Charged by Financial Institutions: Clients are directed to see Item 12 for fees related to brokerage. Stern Capital Management, Inc. generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("Schwab") for investment management accounts.

Stern Capital Management, Inc. may only implement its investment management recommendations after the client has arranged for and furnished Stern Capital Management, Inc. with all information and authorization regarding accounts with appropriate financial institutions.

Financial institutions include, but are not limited to Schwab, any other broker-dealer recommended by Stern Capital Management, Inc., broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, short term redemption fees, charges imposed directly by a mutual fund or ETF in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Stern Capital Management, Inc.'s fee.

Stern Capital Management, Inc.'s Agreement and the separate agreement with any *Financial Institutions* may authorize Stern Capital Management, Inc. to debit the client's account for the amount of Stern Capital Management, Inc.'s fee and to directly remit that management fee to Stern Capital Management, Inc. Any *Financial Institutions* recommended by Stern Capital Management, Inc. have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Stern Capital Management, Inc.

Financial Planning Fees: Stern Capital Management, Inc.'s Financial Planning fee will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees are calculated and charged on an hourly basis, ranging from \$50 to \$200 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

Our Financial Planning fees may be calculated and charged on a fixed fee basis, typically ranging from \$500 to \$5,000, depending on the specific arrangement reached with the client.

Prior to engaging Stern Capital Management, Inc. to provide financial planning and/or consulting services, the client is required to enter into a written agreement with Stern Capital Management, Inc. setting forth the terms and conditions of the engagement. Generally, Stern Capital Management, Inc. requires one-half of the financial planning or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services. The client will be billed directly for this service. The client may terminate the agreement prior to completion in writing and will be entitled to a refund for any fees where the work has not been completed.

Financial Planning Fee Offset: Stern Capital Management, Inc. reserves the discretion to reduce or waive the hourly fee and/or the minimum fixed fee if a financial planning client chooses to engage us for our Portfolio Management Services.

The client will be billed quarterly based on actual hours accrued.

Management personnel of our firm are licensed as registered representatives of a broker-dealer and/or licensed as insurance agents or brokers. In their separate capacity(ies), these individuals are able to implement investment recommendations for advisory clients for separate and typical compensation (i.e., commissions, 12b-1 fees or other sales-related forms of compensation). This presents a conflict of interest to the extent that these individuals recommend that a client invest in a security which results in a commission being paid to the individuals. Clients are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon written notice of termination from the client, any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will prorate the reimbursement according to the number of days remaining starting with the 30th day after receipt of the notice until the end of the quarter.

Advisory Fees in General: Clients should note that similar advisory services may (or may not) be available from other registered investment advisors for higher or lower fees.

Limited Prepayment of Fees: Under no circumstances do we require or solicit payment of fees in excess of \$500 more than six months in advance of services rendered.

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

Stern Capital Management, Inc. does not charge performance-based fees.

Item 7 Types of Clients

Stern Capital Management, Inc. provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Charitable organizations
- Plan Participants of Pension and Profit Sharing Plans

Stern Capital Management, Inc. does not impose a minimum portfolio size or minimum annual fee.

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

Methods of Analysis: We use the following methods of analysis in formulating our investment advice and/or managing client assets:

Charting: In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict when how long the trend may last and when that trend might reverse.

Fundamental Analysis: We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Technical Analysis: We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Asset Allocation: Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

Mutual Fund and/or ETF Analysis: We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

Risks for all forms of analysis: Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Investment Strategies: We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

Long-term purchases: We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- We believe the securities to be currently undervalued, and/or
- We want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

Margin transactions: We may purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

Risk of Loss: Investing in securities involves the risk of loss and are not FDIC insured. Clients should be prepared to bear such loss including the possible loss of the principal amount invested.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Our firm and our management personnel have no reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

The firm or any of its management persons are not registered, nor have any applications pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Management personnel of our firm, in their individual capacities, are agents for various insurance companies. As such, these individuals are able to receive separate, yet customary commission compensation resulting from implementing product transactions on behalf of advisory clients. Clients, however, are not under any obligation to engage these individuals when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

Clients should be aware that the receipt of additional compensation by Stern Capital Management, Inc. and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. The firm does not recommend or select other advisors for its clients. Stern Capital Management, Inc. endeavors at all times to put the interest of its clients first as part of our fiduciary duty as a registered investment adviser; we take the following steps to address this conflict:

- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- We disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- Our firm lists on our quarterly reports, written reminders to each client requesting any updated information regarding changes to their financial situation and investment objectives;

- We require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- We periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

Item 11 Code of Ethics

Stern Capital Management, Inc. and its *Supervised Persons* are not permitted to buy or sell securities (other than mutual funds) that it also recommends to clients consistent with Stern Capital Management Inc.'s policies and procedures. Stern Capital Management, Inc. or individuals associated with Stern Capital Management, Inc. are required to invest only in mutual funds or ETFs for their personal accounts.

Stern Capital Management, Inc. has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Advisors Act, its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material nonpublic information by Stern Capital Management, Inc. or any of its associated persons. The *Code of Ethics* also requires that certain of Stern Capital Management, Inc.'s personnel (called "Access Persons") report their personal securities holdings and transactions and obtain preapproval of certain investments such as initial public offerings and limited offerings.

Unless specially permitted in Stern Capital Management, Inc.'s *Code of Ethics*, none of Stern Capital Management, Inc.'s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) only mutual funds or ETFs.

When Stern Capital Management, Inc. is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Stern Capital Management, Inc. is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States, (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements, (iii) shares issued by mutual funds/ETFs or money market funds, and

(iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

As these situations may represent a conflict of interest, Stern Capital Management, Inc. has established the following restrictions in order to ensure its fiduciary responsibilities:

1. A director, officer or employee of Stern Capital Management, Inc. shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No person of Stern Capital Management, Inc. shall prefer his or her own interest to that of the advisory client.
2. Stern Capital Management, Inc. maintains a list of all securities holdings for itself, and anyone associated with this advisory practice. These holdings are reviewed on a regular basis by Mr. Stern, President.
3. Stern Capital Management, Inc. requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to termination.

Clients and prospective clients may contact Stern Capital Management, Inc. to request a copy of its *Code of Ethics*.

Item 12 Brokerage Practices

Stern Capital Management, Inc. shall generally recommend that clients utilize the brokerage and clearing services of Charles Schwab Institutional, but the client must authorize and select the broker or dealer to use for their accounts and the commission rates to be paid. The firm has no such discretionary authority to determine the broker/dealer to be used and the commission rates to be paid. Factors for recommending Charles Schwab Institutional or any other broker-dealer to clients includes broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help Stern Capital Management, Inc. in providing investment management services to clients. Charles Schwab enables Stern Capital Management, Inc. to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. Charles Schwab may charge Short Term Redemption fees on some mutual funds sold within a short period of time after purchase. The length of this holding period varies depending on the custodian and/or investment company. The commissions and/or transaction fees charged by Charles Schwab may be higher or lower than those charged by other financial institutions. Stern Capital Management, Inc. may, therefore recommend a broker who provides useful research and securities transaction services even though a lower commission may be charged by another broker who offers no research services and minimal securities transaction assistance. Research services may be useful

in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected

Stern Capital Management, Inc. may recommend transactions for clients' portfolios to brokers who provide research and execution services to Stern Capital Management, Inc. and, indirectly, to Stern Capital Management, Inc.'s clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion). Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third parties which are compensated by the broker. Stern Capital Management, Inc. does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. Stern Capital Management, Inc. may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if Stern Capital Management, Inc. determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its ('brokerage') discretionary client accounts.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and Stern Capital Management, Inc. makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker dealer in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When Stern Capital Management, Inc. uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that Stern Capital Management, Inc. does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients.

Within our last fiscal year, we have obtained the following products and services on a soft-dollar basis:

Research and Brokerage Products and Services: "Research" products and services we may receive from broker-dealers may include economic surveys, data, and analyses; financial publications; recommendations or other information about particular companies and industries (through research reports and otherwise); and other products or services (e.g., computer services

and equipment, including hardware, software, and data bases) that provide lawful and appropriate assistance to the firm in the performance of its investment decision-making responsibilities. Consistent with Section 28(e), brokerage products and services (beyond traditional execution services) consist primarily of computer services and software that permit us to effect securities transactions and perform functions incidental to transaction execution. We generally use such products and services in the conduct of our investment decision making generally, not just for those accounts whose commissions may be considered to have been used to pay for the products or services.

Other Uses and Products: The firm may use some products or services not only as "research" and as brokerage (i.e., to assist in making investment decisions for clients or to perform functions incidental to transaction execution) but for our administrative and other purposes as well. In these instances, we make a reasonable allocation of the cost of the products and services so that only the portion of the cost that is attributable making investment decisions and executing transactions is paid with commission dollars and we bear the cost of the balance. Our interest in making such an allocation differs from clients' interest, in that we have an incentive to designate as much as possible of the cost as research and brokerage in order to minimize the portion that the firm must pay directly.

Amount and Manner of Payment: A broker-dealer through which the firm wishes to use soft dollars may establish "credits" arising out of brokerage business done in the past, which may be used to pay, or reimburse the firm for, specified expenses. In other cases, a broker-dealer may provide or pay for the service or product and suggest a level of future business that would fully compensate it. The actual level of transactional business the firm does with a particular broker-dealer during any period may be less than such a suggested level, but may exceed that level and may generate unused soft dollar "credits." Where a client has authorized us to consider a broker-dealer's provision of services outside the Section 28(e) safe harbor, a broker-dealer may generate "credits" based on transactions effected in the past and allow the firm to use such "soft dollars" to acquire services and products provided by third parties. We do not exclude a broker-dealer from receiving business simply because the broker-dealer has not been identified as providing soft dollar research products and services, although we may not be willing to pay the same commission to such broker-dealer as we would have paid had the broker-dealer provided such products and services.

Directed Brokerage: The client may direct Stern Capital Management, Inc. in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Stern Capital Management, Inc. will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Stern Capital Management, Inc. (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Stern Capital Management, Inc. may decline a client's request to direct brokerage if, in Stern Capital Management, Inc.'s sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Stern Capital Management, Inc. decides to purchase or sell the same securities for several clients at approximately the same time. Stern Capital Management, Inc. may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Stern Capital Management, Inc.'s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Stern Capital Management, Inc.'s clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Stern Capital Management, Inc. determines to aggregate client orders for the purchase or sale of securities, Stern Capital Management, Inc. shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Stern Capital Management, Inc. shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that Stern Capital Management, Inc. determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de-minimis* allocation in one or more accounts, Stern Capital Management, Inc. may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Stern Capital Management, Inc. may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although we may recommend that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. Stern Capital Management, Inc. is independently owned and operated and not affiliated with Schwab.

Schwab provides Stern Capital Management, Inc. with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon our firm committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access

to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab 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 Schwab or that settle into Schwab accounts.

Schwab Institutional also makes available to our firm other products and services that benefit Stern Capital Management, Inc. but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist us in managing and administering our clients' accounts include software and other technology that

- i. Provide access to client account data (such as trade confirmations and account statements);
- ii. Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- iii. Provide research, pricing and other market data;
- iv. Facilitate payment of our fees from clients' accounts; and
- v. Assist with back-office functions, recordkeeping and client reporting.

Schwab Institutional also offers other services intended to help us manage and further develop our business enterprise. These services may include:

- i. Compliance, legal and business consulting;
- ii. Publications and conferences on practice management and business succession; and
- iii. Access to employee benefits providers, human capital consultants and insurance providers.

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to Stern Capital Management, Inc. Schwab Institutional may discount or waive fees it 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 our firm. Schwab Institutional may also provide other benefits such as educational events or occasional business entertainment of our personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

Item 13 Review of Accounts

Portfolio Management Services

REVIEWS: While the underlying securities within Model Portfolio Management Services accounts are regularly monitored, the models are reviewed at least quarterly. The models are reviewed in the context of the investment objectives and guidelines of each model portfolio. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances as the firm is notified by the client, or the market, political or economic environment. These accounts are reviewed by: the Firm's President, Stuart M. Stern.

REPORTS: In addition to the monthly statements and confirmations of transactions that Model Portfolio Management Services clients receive from their custodian. Stern Capital Management, Inc. will provide quarterly reports summarizing account performance and management fees deducted from their accounts. These reports will also remind the client to notify us if there have been changes in the client's financial situation or investment objectives and whether the client wishes to impose investment restrictions or modify existing restrictions. Clients should compare the account statements they receive from their custodian with the statements they receive from Stern Capital Management, Inc.

Financial Planning Services:

REVIEWS: While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

REPORTS: Financial Planning clients may receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

Item 14 Client Referrals and Other Compensation

Stern Capital Management, Inc. does not have any relationships or arrangements where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Stern Capital Management, Inc. does not provide any direct or indirect compensation for client referrals.

Item 15 Custody

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is sent a statement of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required

to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statements. Clients are urged to compare the account statements they receive from the qualified custodian with those they receive from Stern Capital Management, Inc. The firm does not have actual or constructive custody of client assets.

The following safeguards are disclosed:

- A. The investment advisor has custody of the funds and securities solely as a consequence of its authority to make withdrawals from client accounts to pay its advisory fee.
- B. The investment advisor has written authorization from the client to deduct advisory fees from the account held with the qualified custodian.
- C. Each time a fee is directly deducted from a client account, the investment adviser concurrently:
 - i. Sends the qualified custodian an invoice or statement of the amount of the fee to be deducted from the client's account; and
 - ii. Sends the client an invoice or statement itemizing the fee. Itemization includes the formula used to calculate the fee, the value of the assets under management on which the fee is based, and the time period covered by the fee.
- D. The investment advisor notifies the Commissioner in writing that the investment advisor intends to use the safeguards provided in this paragraph (b)(3). Such notification is required to be given on Form ADV.

Item 16 Investment Discretion

Investment Discretion: Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a Client agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

Any material conflicts of interest have been disclosed.

Item 17 Voting Client Securities

Voting Client Securities: As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets. We may provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

Item 18 Financial Information

Stern Capital Management, Inc. has no additional financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$500 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Stern Capital Management, Inc. has never been the subject of a bankruptcy petition at any time.

Item 19 Business Background of Management (not required by SEC)

Stuart M. Stern (Born 1959) is President of Stern Capital Management, Inc. His formal education is as follows:

- Fairleigh Dickinson University - B.S. Business Management (Cum Laude)
- California State University - Los Angeles M.B.A.

Business Background:

Stern Capital Management, Inc. - President (Firm started in 8/96 as a sole proprietorship and incorporated in 10/99 to Present)

Additional information about other business activities can be found under Item 4 of the ADV Part 2B for Stuart Stern.

Mr. Stern holds the professional designation of a Registered Financial Consultant (RFC). Qualifications for the credential are a minimum of four years experience as a full time practitioner in the field of financial planning, meet licensing requirements, adhere to the RFC Code of Ethics, and complete 40 hours of continuing education every year.

Mr. Stern does not have any legal or disciplinary events material to a client's or prospective client's evaluation. Mr. Stern does not receive additional compensation other than management fees for providing advisory services.

Mr. Stern has never been found liable for any arbitration claim, civil, self-regulatory organization nor any administrative hearing involving any investment related business. Mr. Stern has never been the subject of a bankruptcy petition. Mr. Stern does not have a relationship or arrangement with any issuers of securities.

Item 19: Business Background of Management (Not required by SEC) (Cont.)

Alan B. Stern was born in 1991 and is Vice President of Stern Capital Management, Inc. His formal education is as follows:

- Rowan University – B.S. Business Management (Magna Cum Laude), May 2013
- Hofstra University – M.B.A. Business Management, May 2015

Business Background:

- Advisor Services/RIA Intern – Charles Schwab and Co., June 2014 – Aug 2014
- Internal Audit Intern, Commercial Products & Wealth – TD Bank, June 2013 – August 2013
- US Corporate Segment Finance Intern – TD Bank, June 2012 – August 2012
- Financial Planning Intern – Stern Capital Management, Inc., June 2011 – August 2011

Mr. Alan B. Stern does not have any legal or disciplinary events material to a client's or prospective client's evaluation.

Mr. Alan B. Stern is not involved in any other investment-related business activities outside of Stern Capital Management, Inc.'s fee-based advisory services.

Mr. Alan B. Stern does not receive any economic benefit from someone who is not a client for providing advisory services.

Mr. Stern holds the professional designation of a Registered Financial Consultant (RFC). Qualifications for the credential are a minimum of four years experience as a full time practitioner in the field of financial planning, meet licensing requirements, adhere to the RFC Code of Ethics, and complete 40 hours of continuing education every year.

Mr. Alan B. Stern is employed at the same location as Mr. Stuart M. Stern. Mr. Stuart M. Stern reviews all paperwork when new client accounts are opened and Mr. Stuart M. Stern reviews all model portfolios. Mr. Stuart M. Stern is responsible for supervising Mr. Alan B. Stern and his telephone number is (732) 679-7050.

Mr. Alan B. Stern has never been found liable for any arbitration claim, civil, self-regulatory organization, nor any administrative hearing involving any investment related business. Mr. Alan B. Stern has never been the subject of a bankruptcy petition.