

Baugh & Associates, LLC  
IARD# 136342  
6065 Roswell Rd  
Suite 980  
Atlanta, GA 30328  
Phone: 404-256-0268  
Fax: 404-256-1154  
[www.baughandassociates.com](http://www.baughandassociates.com)  
[derek@baughandassociates.com](mailto:derek@baughandassociates.com)

March 2, 2021

**This brochure provides information about the qualifications and business practices of Baugh & Associates, LLC (“Baugh & Associates”). If you have any questions about the contents of this brochure, please contact us at 404-256-0268 or by email at [derek@baughandassociates.com](mailto:derek@baughandassociates.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 Baugh & Associates, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration does not imply a certain level of skill or training.**

## **Item 2 Material Changes**

Since our last annual amendment dated March 17, 2020, there has not been any material changes to our brochure.

We encourage you to review the Brochure closely. We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Our Brochure may be requested by contacting us at our main number above.

Additional information about Baugh & Associates, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website provides information about any persons affiliated with Baugh & Associates, LLC who are registered, or are required to be registered, as investment adviser representatives of Baugh & Associates, LLC.

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## **Item 4 – Advisory Business**

Shaw & Baugh, Inc., predecessor to Baugh & Associates, LLC, was founded in 1976. Baugh & Associates, LLC (“Baugh & Associates” or “the firm”) was formed in 2004. Larry J. Baugh is the principal owner and President of Baugh & Associates.

Baugh & Associates, LLC is strictly a fee-only financial planning and investment management firm. The firm does not receive commissions for purchasing or selling annuities, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. No commissions or finder’s fees are accepted in any form by the firm.

Baugh & Associates, LLC does not act as a custodian of client assets. The client always maintains asset control. Baugh & Associates, LLC places trades for clients under a limited power of attorney through the brokerage firm being used as custodian.

An evaluation of each client’s initial situation is articulated to the client. Periodic reviews are also communicated to provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

Baugh & Associates, LLC manages investment advisory accounts and furnishes financial and investment advice through consultations.

Baugh & Associates, LLC also furnishes advice to clients on matters not involving securities, such as financial planning, taxation issues, mortgage refinancing, estate planning, and financial and tax planning advice concerning the management of closely held businesses.

Baugh & Associates provides advisory services, giving continuous advice based on the client’s individual needs. Advice is provided through consultation with the client and may include determination of financial objectives, identification of financial problems, cash flow management, tax planning, investment management, retirement planning, education funding, estate planning and insurance review. Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Through personal discussions with each client the firm will develop a portfolio based upon the client’s goals, objectives, risk tolerance and time horizon. The firm will then manage the portfolio according to the criteria established.

Most clients choose to have Baugh & Associates, LLC manage their assets in order to obtain ongoing in-depth advice and life planning. All aspects of the client’s financial affairs are reviewed, including those of their children, if applicable. Realistic and measurable goals are set and objectives to reach those

goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The annual Investment Advisory Agreement fee is based on a percentage of the assets we have under management for the client.

There is no minimum annual fee. Current client relationships may exist where the fees are higher or lower than the fee schedule.

Assets are invested primarily in stocks (common and preferred), corporate bonds, which are purchased or sold through a brokerage account. The brokerage firm charges a transaction fee for all trades. Baugh & Associates, LLC does not receive any compensation, in any form, from the brokerage companies.

On occasion, investments may also include warrants, certificates of deposit ("CD"), municipal securities, U.S. government securities, options contracts, exchange-traded funds ("ETF") or notes ("ETN"), closed-end mutual funds and no-load open-end mutual funds. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus.

Initial public offerings (IPOs) are occasionally available for Baugh & Associates, LLC's clients; generally, in the form of preferred stocks or corporate debt.

Each client has the ability to impose reasonable restrictions on the management of his/her account, including the designation of particular securities or types of securities that should not be purchased for the account, or that should be sold if held in the account. If a client's instructions are unreasonable or an Investment Advisor Representative believes that the instructions are inappropriate for the client, Baugh & Associates will notify the client and arrange a discussion about why we think the instructions are inappropriate for the client. A client will not be able to provide instructions that prohibit or restrict the Portfolio Manager of an open-end or closed-end mutual fund or ETF with respect to the purchase or sale of specific securities or types of securities within the fund.

Baugh & Associates also furnishes advice to clients on matters not involving securities management, such as taxation issues, mortgage refinancing, estate planning, and financial and tax planning advice concerning the management of closely held businesses.

As of February 18, 2021, Baugh & Associates held \$197,520,697 in assets under management on a discretionary basis; and \$3,663 in assets under management on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

Baugh & Associates, LLC bases its investment management fees on a percentage of assets under management.

Baugh & Associates, LLC, in its sole discretion, may negotiate its fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

The specific manner in which fees are charged by the Firm is established in a client's written agreement. Fees are based on a percentage of assets under management, calculated at an annual rate and billed in advance on a quarterly basis based on the assets in the account, at the end of each quarter, per the schedule below and in some instances, may be negotiated.

#### FEE SCHEDULE

<b>Account Value</b>	<b>Annual Fee</b>
Up to \$300,000	1.00%
\$301,000-\$1,000,000	0.75%
Above \$1,000,000	0.50%

There is no initial fee. If a client engages Baugh & Associates mid-quarter, they are not billed for that partial quarter. Billing begins with the next quarter. The fee will be calculated by multiplying the fair market value of the assets in the account as of the last trading day of each calendar quarter by the annual fee and then dividing that result by four, which equals one quarter. Upon termination of an account, any prepaid, asset-based fees will be prorated according to the number of days the account was open and under Baugh & Associates management during the calendar quarter and excess fees will be returned to the client.

#### Margin

Investment adviser representatives trade on margin for client accounts, when consistent with the client's suitability profile and risk tolerance or at the client's directive. This could result in a high portfolio turnover ratio and higher transaction charges in accounts with such charges. Additionally, the use of margin results in interest charges as well as all other fees and expenses associated with the security or account involved.

Fees are debited directly from client accounts and are calculated using the total assets in the account as shown on the client custodial statement, including any assets purchased on margin. If there is a net debit cash balance in the account as a result of using margin, the total assets in the account will be reduced by the negative cash balance in the fee calculation. Net positive cash balances in type 1 (cash account) and type 2 (margin account) are included in the fee calculation.

#### Other Charges

Baugh & Associate's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. The advisory fees and transaction charges do not cover charges imposed by third parties for investments transferred in and held in the account, such as contingent deferred sales charges or 12(b)-1 trails on mutual funds. In addition, each mutual fund charges asset management fees, which are in addition to the advisory fees charged by our firm. The fees charged by such funds are disclosed in each fund's prospectus. The Management Fee also does not cover fees and charges in connection with: debit balances; margin interest; odd-lot differentials; IRA account maintenance fees; transfer taxes; exchange fees; wire transfers; extensions; non-sufficient funds; mailgrams; legal transfers; bank wires; postage; costs associated with exchanging foreign currencies; and SEC fees or other fees or taxes required by law, which may be imposed by Schwab or others.

### 12(b)-1 Fees

In addition to the advisory fees paid to Baugh & Associates, clients can also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "Financial Institutions"). These additional charges include securities brokerage commissions, transaction fees, custodial fees, fees charged by the Independent Managers, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses, 12(b)-1 fees), 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.

Some mutual funds pay 12(b)-1 service fees (normally 0.25% per year) to the Custodian. These fee arrangements will be disclosed upon request of a client and are available in the applicable fund prospectus.

Baugh & Associates does not recommend mutual funds; however, there are instances in which mutual funds charging 12(b)-1 fees are transferred into the Firm. In such cases, Baugh & Associates may recommend the client holds the existing share class, instead of selling the fund and buying a lower-cost share, which could result in a tax liability. The Firm compares and reviews different available share classes along with the anticipated investment timeframe, potential tax consequences, future anticipated transactions and other costs to determine the best recommendation for the client at that time. Baugh & Associates does not receive any part of the fees charged by mutual funds.

Although Baugh & Associates believes its fees are reasonable in light of the services provided, clients should be aware that transaction fees may be higher than those otherwise available if advisory services and brokerage services were provided separately for a discrete fee or if an investment Advisor were to select brokerage and negotiate commissions in the absence of the extra consulting service provided. The comparison is dependent upon a number of factors, including the frequency of brokerage activity in the client's account, the size of the account under management, and any negotiated fee arrangements with respect to the account. An investor should consider these factors prior to opening an Advisory Account with Baugh & Associates. Clients should consider the value of the additional consulting services when making such comparisons. The combination of custodial, consulting, and brokerage services may not be available separately or may require multiple accounts, documentation, and fees. All fees described herein are subject to negotiation depending on a range of factors including, but not limited to, account size and overall range of services requested.

### Account Termination

Client and/or the firm may initiate termination of the contract at any time by sending written notice to the contra party and will be deemed accepted the day that it is received by the contra party. Upon termination of an account, any prepaid, asset-based fees will be prorated according to the days the account was opened during the calendar quarter and excess fees will be returned to the client.

Baugh & Associates, LLC reserves the right to stop work on any account that is more than 180 days overdue.

Upon written receipt of notice to terminate its client agreement and unless specific transfer instructions are received, Baugh & Associates and its agent will cease advisory services.

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

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

Baugh & Associates, LLC does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## **Item 7 – Types of Clients**

Baugh & Associates provides portfolio management services to individuals, corporations and business entities, pension and profit-sharing plans, estates, trusts, and other U.S. institutions. Baugh & Associates does not require clients to have or maintain a minimum account size.

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

Our investment strategy begins with an understanding of a client's financial goals. Advisors use demographic and financial information provided by the client, in addition to speaking with the client, to assess the client's risk profile and investment objectives in determining an appropriate plan for the client's assets. Investment strategies ordinarily include long- or short-term purchases of stocks and fixed income securities.

Client portfolios are normally invested 30% to 70%, depending on the client's age and risk tolerance, in high-quality, large cap stocks that pay a dividend and have growth potential. The remaining percentage of the client portfolio is normally invested in "BBB" or better, referred to as investment grade, rated short- to intermediate-term corporate debt, "BBB" or better rated preferred stocks, which have the highest total returns or yields to maturity available at that time, and various types of short- to intermediate-term U.S. government guaranteed investments.

On occasion, structured CD products, closed-end mutual funds, and ETFs and ETNs are purchased as well. Other strategies may include short-term purchases, margin transactions, and limited selling of covered call options.

Based on this investment mix and a conservative philosophy, few sales are made. Mainly the portfolios buy, accumulate and reinvest in other high-quality income and growth-oriented investments. Portfolios are well diversified in order to attempt to control the risks associated with traditional markets, such as those discussed in the next section.

The investment strategy for a specific client is based upon their age and the objectives stated by the client during consultations. The client may change these objectives at any time.

Investment recommendations are based on an analysis of the client's individual needs and are drawn from fundamental analysis; where we attempt to measure the intrinsic value of a security by looking at economic and financial factors to determine if the company is underpriced or overpriced relative to the market. 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.



Information for this analysis is drawn from financial websites and magazines, research materials prepared by others, annual reports, corporate filings, prospectuses, company press releases and corporate ratings services.

It is important to note that investing in stocks and fixed income securities involves a risk that clients must be prepared to bear. For any risks associated with Investment Company products, please refer to the prospectuses for additional details about these risks. Our investment approach constantly keeps the risk of loss in mind. These risks include, but are not limited to:

- **Interest-rate Risk:** Fluctuations in interest rates cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security or bond can drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They usually carry a higher risk of profitability than say an electric company, which generates its income from a steady stream of customers who typically buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid the more traders that are interested in a standardized product. For example, U.S. Treasury Bills are highly liquid, while corporate bonds of U.S. companies are typically not as liquid.
- **Financial Risk:** Excessive borrowing to finance a business' operations could possibly hinder its profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations could result in declining market value and/or a bankruptcy.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Baugh & Associates or the integrity of Baugh & Associates management. Baugh & Associates has no information applicable to this Item.

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

As a registered investment adviser, Baugh & Associates is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Baugh & Associates or the integrity of its management. Baugh & Associates has contacts with a related entity that

creates, or packages limited partnerships which invests in commercial real estate that generate monthly cash flows.

Larry J. Baugh is also separately licensed as an insurance agent for several independent insurance companies. He spends less than 1% of his time with these aforementioned activities. In his capacity as an independent insurance agent, clients will be charged separately from their advisory services. Larry J. Baugh typically only recommends level term life insurance to his clients, but this arrangement poses a conflict of interest to the extent that there is a financial incentive to recommend insurance that results in commissions. Baugh & Associates is dedicated to acting in our clients' best interests based on fiduciary principles. Clients are under no obligation to purchase any level term life insurance.

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

Baugh & Associates has adopted a Code of Ethics ("the Code") for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Baugh & Associates must acknowledge the terms of the Code of Ethics annually, or as amended.

Advisors of Baugh & Associates may buy or sell securities that are recommended to clients. Baugh & Associates employees and persons associated with Baugh & Associates are required to follow the Code of Ethics. Subject to satisfying this policy and applicable laws, officers and employees of Baugh & Associates and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Baugh & Associates clients. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of Baugh & Associates will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Baugh & Associates' clients. In addition, the Code requires pre-approval of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Baugh & Associates and its clients.

Advisors may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a conflict of interest in that Baugh & Associates or its Representatives are in a position to benefit from the sale or purchase of those securities. Baugh & Associates Code of Ethics provides a policy to monitor the personal trading activities and securities holdings of each of the Firm's Representatives or other Access Persons. The Code of Ethics' personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading. These policies are designed to discourage and prohibit personal trading that would disadvantage clients.

Baugh & Associates clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Derek H. Baugh at [Derek@baughandassociates.com](mailto:Derek@baughandassociates.com) or (404) 256-0268.

## Item 12 – Brokerage Practices

We recommend the brokerage and custodial services of Charles Schwab & Co, Inc. (“Schwab”). Schwab is a registered broker-dealer that charges brokerage commissions or transaction fees for effecting securities transactions. We are independently owned and operated and not affiliated with Schwab. As the custodian holding an account, Schwab does not generally charge separately for custody services. They are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed. When selecting a custodian to recommend, a number of factors were considered, including their financial strength, reputation, execution, pricing, responsiveness, fees, research, and other services.

In return for effecting securities transactions through Schwab, we receive products and services that help us make investment decisions and service our clients’ accounts. These products and services are known as “soft dollar benefits.” If Schwab did not provide us with soft dollar benefits, we would have to pay for these products and services.

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services are generally available on an unsolicited basis (we don’t have to request them) and at no charge to us. The following is a more detailed description of Schwab’s support services:

**Services that benefit you.** Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab’s services described in this paragraph generally benefit you and your account.

**Services that may not directly benefit you.** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients’ accounts. They include investment research, both Schwab’s own and that of third parties. We may use this research to service all or a substantial number of our clients’ accounts. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients’ accounts
- Assist with back-office functions, recordkeeping, and client reporting

**Services that generally benefit only us.** Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional lunch for our personnel.

In 2017, we received an added benefit in which Schwab provided us with a one-time benefit to provide us with additional products and services, including payments used towards Compliance Consulting, and portfolio management software. These services generally benefit us and not clients directly.

**Our interest in Schwab's services.** The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. [These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody.] We have an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business and based on you receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only us.

In soft dollar arrangements, an investment adviser selects the broker that will execute trades based on the broker's willingness to provide research and other services to the adviser. In contrast, in a "directed brokerage" arrangement, the client asks its adviser, subject to the adviser's satisfaction that the client is receiving best execution, to direct commission business to a particular broker that has agreed to provide services.

We do not recommend that clients direct us to execute transactions through a specified broker. We will, however, make every effort to accommodate a request to direct brokerage to a client's chosen broker.

Trade aggregation refers to the practice of combining orders for execution. When consistent with our duty to obtain best execution, we will aggregate multiple client transactions into a single order or block trade in order to obtain the best price for our clients. These block trades are typically placed at a limit price so that each client account receives the same price. These block trades may take several days to execute, until the security being traded reaches the limit price. In such circumstances, each account is charged the same commission and will receive securities at a total average price. Baugh & Associates will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order.

There may be times when Baugh & Associates feels it is in the best interest of clients to perform internal cross transactions (i.e. where Baugh & Associates arranges for the sale of a security from one advisory account to another advisory account, but does not receive any type of commission or other fee, other than its regular management fee). Baugh & Associate's practice is to engage in these types of transactions in very limited circumstances and will adhere to all applicable regulations, including disclosures to clients and the receipt of client consent.

Internal cross transactions will only be considered when the need to liquidate a security for one client results in the availability of a security that is in the best interests of, and deemed appropriate for another client. Baugh & Associates prohibits the need to purchase a security as the sole reason for identifying sale candidates. It also prohibits the need to sell a security as the sole reason for purchase of such security by another client. When effecting an internal cross transaction, Baugh & Associates will not act either as principal or as agent through a broker/dealer or otherwise receive commissions or any type of compensation, other than its management fee, for effecting internal cross transactions. Baugh & Associate's sole intent for doing an internal cross transaction is to act in the best interest of each client in accordance with their respective investment objectives. Prior to or immediately following each cross trade, all involved parties will be notified as to the details of the trade. All internal cross transactions will be affected at the independent current market price of the security.

### **Item 13 – Review of Accounts**

Account reviews are conducted by Larry J. Baugh. Account performance is reviewed not less than quarterly. Factors that are considered during such reviews include but are not limited to the following: investment objectives, targeted allocation, current allocation, suitability, performance, monthly distributions, concentrated positions, diversification, and outside holdings. At least annually, the firm will contact the client and request current information to determine whether there have been any changes in the information provided in the client's situation.

The client agrees to inform the firm of any material changes to the information provided to the firm or any other change in the client's financial circumstances that might affect the manner in which the client's assets should be invested. Clients may contact the firm during normal business hours to consult with the firm concerning the management of the client's account(s).

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

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (see Item 12—Brokerage Practices). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Baugh & Associates does not compensate others for client referrals.

### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our advisory fees directly from your account [or if you grant

us authority to move your money to another person's account]. Schwab maintains actual custody of your assets. Clients should receive statements at least quarterly from Schwab. Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by Baugh & Associates. Additionally, Baugh & Associates receives a duplicate copy of the clients' monthly brokerage statements. Baugh & Associates reconciles these statements monthly with our internal portfolio software to ensure there are no discrepancies. However, our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

At the outset of an advisory relationship, Baugh & Associates usually receives discretionary authority in writing from the client to select the identity and amount of securities to be bought or sold. In all cases, such discretion is to be exercised in a manner consistent with the investment objectives for the particular client account. Clients must authorize such discretion in the advisory agreement. When selecting securities and determining amounts, Baugh & Associates observes the investment policies, limitations and restrictions of the clients for which it advises.

### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, Baugh & Associates does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Clients should contact their financial advisor if they have any questions and/or to obtain this information. Clients will receive their proxies directly from their custodian or transfer agent.

### **Item 18 – Financial Information**

Registered Investment Advisers are required to provide clients with certain financial information or disclosures about Baugh & Associates financial condition. Baugh & Associates has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of any bankruptcy proceeding.