

# Sterling Financial Planning, Inc.

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ADV Part 2A, Firm Brochure

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This Brochure provides information about the qualifications and business practices of Sterling Financial Planning, Inc. If you have any questions about the contents of this Brochure, please contact us at (973) 729-1234 or [nnicolette@sterlingadvice.com](mailto:nnicolette@sterlingadvice.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 Sterling Financial Planning, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

References to Sterling Financial Planning, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

## **Item 2           Material Changes**

Since the March 4, 2021 annual update filing, this Brochure has been amended at Item 1 and 4.A. to reflect that Nicholas A. Nicolette has assumed the role of President and Chief Compliance Officer.

Sterling Financial Planning, Inc.’s Chief Compliance Officer, Nicholas A. Nicolette, is available to address any questions about this Firm Brochure.

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#### **Item 4            Advisory Business**

- A. Sterling Financial Planning, Inc. (“Sterling”) is a New Jersey corporation formed on November 20, 1992. Sterling became registered as an investment adviser in February 1993. Nicholas A. Nicolette, President and Chief Compliance Officer, and Matthew Hannum, Corporate Secretary, are Sterling’s principal owners.
- B. Sterling offers to provide investment advisory services, retirement plan consulting services, and financial planning and related consulting services to its clients, who generally include individuals, high net worth individuals, pension and profit sharing plans, trusts and estates.

#### **INVESTMENT ADVISORY SERVICES**

Clients can engage Sterling to provide discretionary or non-discretionary investment advisory services according to the terms and conditions of an Investment Advisory Agreement. Sterling’s annual investment advisory fee is based upon a percentage of the market value of the assets placed under Sterling’s management.

Sterling’s investment advisory services are specifically tailored to the needs of each client. To begin the process an investment adviser representative will collaborate with the client to develop investment objectives, which are based upon an assessment of factors that typically include: capital preservation; risk tolerance; income production; liquidity requirements; client preferences; asset and liability levels; and investment restrictions. The client’s investment objectives are established, and a compatible investment strategy and plan are then implemented. Clients may, at any time impose restrictions in writing on investing in certain securities or types of securities. Sterling currently recommends that allocate investment assets among various mutual funds, exchange traded funds (“ETFs”), individual debt, and individual equity securities, in accordance with the client’s designated investment objectives. Once client investment assets are allocated, Sterling provides ongoing monitoring and review of account performance and asset allocation as compared to client-designated investment objectives and may execute account transactions as a result of those reviews or other triggering events.

#### **FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)**

Sterling offers financial planning and consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) under the terms and conditions of a Financial Planning and Consulting Agreement. This Agreement sets forth the terms and conditions of the engagement including the scope of services and the portion of the fee that is due from the client to begin the engagement.

#### **RETIREMENT PLAN CONSULTING SERVICES**

Sterling provides retirement plan consulting services under ERISA §3(21). In this capacity, Sterling assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives from which plan participants choose in self-directing the investments for their individual plan retirement accounts. The plan sponsor or administrator ultimately decides whether and how to implement these recommendations. In addition, to the extent requested by the plan sponsor, Sterling will also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The plan participants are responsible for any individual investment selections made under the plan. When providing services under ERISA §3(21), Sterling does not exercise discretionary authority or control of plan assets or administration of the plan.

If the plan sponsor engages Sterling in an ERISA §3(38) capacity, Sterling may provide the same services as described above, but may also manage plan assets on a discretionary basis, develop asset allocation models that Sterling manages on a discretionary basis, which plan participants may choose in managing their individual retirement account, or modify the investment options made available to plan participants on a discretionary basis.

## MISCELLANEOUS

Limitations of Financial Planning and Non-Investment Consulting/Implementation Services. Sterling does not serve as a law firm or accounting firm, and no portion of its services should be construed as legal or accounting services. Accordingly, Sterling does not prepare estate planning documents or tax returns. Unless specifically agreed in writing, neither Sterling nor its representatives are responsible to implement any financial plans or financial planning advice; provide ongoing financial planning services; or provide ongoing monitoring of financial plans or financial planning advice. The client is solely responsible to revisit the financial plan or financial planning advice with Sterling, if desired. The client retains absolute discretion over all financial planning and related implementation decisions and is free to accept or reject any recommendation from Sterling and its representatives in that respect. Sterling's financial planning and consulting services are completed upon communicating its recommendations to the client, upon delivery of the written financial plan, or upon termination of the applicable agreement. To the extent requested by a client, Sterling may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance agents, etc.). Clients are under no obligation to engage the services of any recommended professional, who are responsible for the quality and competency of the services they provide. Please refer to Item 10.C. below for additional information about Sterling's President and Chief Compliance Officer, Nicholas Nicolette, serving as a licensed insurance agent of Sterling Financial Group, Inc., d/b/a Sterling Advisors, which is a licensed insurance agency under common control with Sterling.

Retirement Plan Rollovers – No Obligation / Conflict of Interest. A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Sterling recommends that a client roll over their retirement plan assets into an account to be managed by Sterling, such a recommendation creates a conflict of interest if Sterling will earn a new (or increase its current) advisory fee as a result of the rollover. No client is under any obligation to roll over retirement plan assets to an account managed by Sterling.

ERISA / IRC Fiduciary Acknowledgment. When Sterling provides investment advice to a client about the client's retirement plan account or individual retirement account, it does so as a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act ("ERISA") and/or the Internal Revenue Code ("IRC"), as applicable, which are laws governing retirement accounts. Because the way Sterling makes money creates some conflicts with client interests, Sterling operates under a special rule that requires it to act in the client's best interest and not put its interests ahead of the client's. Under this special rule's provisions, Sterling must: meet a professional standard of care when making investment recommendations (give prudent advice); never put its financial interests ahead of the client's when making recommendations (give loyal advice); avoid misleading statements about conflicts of interest, fees, and investments; follow policies and procedures designed to ensure that Sterling gives advice that is in the client's best interest; charge no more than is reasonable for Sterling's services; and give the client basic information about conflicts of interest.

Non-Discretionary Service Limitations. Clients that determine to engage Sterling on a non-discretionary basis must be willing to accept that Sterling cannot execute any account transactions without obtaining the client's prior consent to the transactions. Therefore, if Sterling would like to make a transaction for a client's account (including removing a security that Sterling no longer believes is appropriate or adding a security that Sterling believes is appropriate), and the client is unavailable, Sterling will be unable to execute the account transactions (as it would for its discretionary clients) without first obtaining the client's consent. Affected clients may suffer investment losses or miss potential investment gains as a result.

Dimensional Fund Advisors. Sterling may invest client assets in mutual funds issued by Dimensional Fund Advisors ("DFA"). These funds are generally only available through selected registered investment advisers. Therefore, clients who are invested in DFA funds may experience restrictions in the transfer, reallocation, or additional purchase of DFA funds upon the termination of Sterling's engagement.

Portfolio Trading Activity / Inactivity. As part of its investment advisory services, Sterling will review client portfolios on an ongoing basis to determine if any trades are necessary based upon various factors, including but not limited to investment performance, fund manager tenure, style drift, account additions/withdrawals, the client's financial circumstances, and changes in the client's investment objectives. Based upon these and other factors, there may be extended periods of time when Sterling determines that trades within a client's portfolio are not prudent. Clients nonetheless remain subject to the fees described in Item 5 during periods of portfolio trading inactivity.

Cybersecurity Risk. The information technology systems and networks that Sterling and its third-party service providers use to provide services to Sterling's clients employ various controls, which are designed to prevent cybersecurity incidents stemming from intentional or unintentional actions that could cause significant interruptions in Sterling's operations and result in the unauthorized acquisition or use of clients' confidential or non-public personal information. Clients and Sterling are nonetheless subject to the risk of cybersecurity incidents that could ultimately cause them to incur losses, including for example: financial losses, cost, and reputational damage to respond to regulatory obligations, other costs associated with corrective measures, and loss from damage or interruption to systems. Although Sterling has established its systems to reduce the risk of cybersecurity incidents from coming to fruition, there is no guarantee that these efforts will always be successful, especially considering that Sterling does not directly control the cybersecurity measures and policies employed by third-party service providers. Clients could incur similar adverse consequences resulting from cybersecurity incidents that more directly affect issuers of securities in which those clients invest, broker-dealers, qualified custodians, governmental and other regulatory authorities, exchange and other financial market operators, or other financial institutions.

Client Obligations. When performing its services, Sterling is not required to verify any information received from the client or from the client's designated professionals and is expressly authorized to rely on that information. Clients are responsible to promptly notify Sterling if there is ever any change in their financial situation or investment objectives for the purpose of reviewing or amending Sterling's services or previous recommendations.

Margin Loans. Sterling does not recommend the use of margin for investment purposes. However, if a client determines to take a margin loan that collateralizes a portion of the assets that Sterling is managing, Sterling's investment advisory fee will be computed based upon the full value of the assets, without deducting the amount of the margin loan. The terms and conditions of each margin loan are contained in a separate agreement between the client and the margin lender selected by the client, which terms and conditions may vary from client to client. Borrowing funds on margin is not suitable for all clients and is subject to certain risks, including but not limited to: increased market risk, increased risk of loss, especially in the event of a significant downturn; liquidity risk; the potential obligation to post collateral or repay the margin loan if the margin lender determines that the value of collateralized securities is no longer sufficient to support the value of the margin loan; the risk that the margin lender may liquidate the client's securities to satisfy its demand for additional collateral or repayment / the risk that the margin lender may terminate the margin loan at any time. Before agreeing to participate in a margin loan program, clients should carefully review the applicable margin agreement and all risk disclosures provided by the margin lender including the initial margin and maintenance requirements for the specific program in which the client enrolls, and the procedures for issuing "margin calls" and liquidating securities and other assets in the client's accounts. If Sterling were to recommend that a client continue the use of margin instead of selling securities that Sterling manages for a fee to meet liquidity needs, the recommendation presents an ongoing conflict of interest because selling those securities (instead of leveraging those securities to access a margin loan) would reduce the amount of assets to which Sterling's investment advisory fee percentage is applied, and thereby reduce the amount of investment advisory fees collected by Sterling. This conflict of interest would persist as long as Sterling has a disincentive to recommend that the client terminate the use of margin. If the client were to invest any portion of the margin proceeds in an account that Sterling manages, Sterling will receive an advisory fee on the invested amount, which could compound this conflict of interest. Clients are not under any obligation to employ the use of margin, and are solely responsible for determining when to use, reduce, and terminate the use of margin. Although Sterling seeks to disclose all conflicts of interest related to its recommended use of margin and related business practices, there may be other conflicts of interest that are not identified above. Clients should carefully review the applicable margin agreement and all risk disclosures provided by the margin lender as applicable and contact Sterling's Chief Compliance Officer with any questions regarding the use of margin.

C. Sterling provides investment advisory services tailored to the specific needs of each client. Before providing investment advisory services, an investment adviser representative will coordinate with clients to develop their investment objectives. Sterling will then allocate or recommend that clients allocate investment assets consistent with the designated investment objectives. The client may, at any time, impose reasonable restrictions, in writing, on Sterling's services.

D. Sterling does not participate in a wrap fee program.

E. As of December 31, 2021, Sterling had \$ \$376,256,287 in assets under management on a non-discretionary basis and \$245,440,471 in assets under management on a discretionary basis.

## Item 5 Fees and Compensation

### A. INVESTMENT ADVISORY SERVICES

If a client determines to engage Sterling to provide discretionary and/or non-discretionary investment advisory services on a fee basis, Sterling's non-negotiable annual investment advisory fee is based upon a percentage (%) of the market value placed under Sterling's management as follows:

	Account Value	Account Fees	
		<u>Per Quarter</u>	<u>Annualized</u>
First	\$0–\$500,000	0.25%	1.00% of Market Value
Next	\$500,000–\$1,000,000	0.20%	0.80% of Market Value
Next	\$1,000,000–\$2,000,000	0.125%	0.50% of Market Value
Next	\$2,000,000–\$5,000,000	0.10%	0.40% of Market Value
	Over \$5,000,000	0.075%	0.30% of Market Value

Fees are adjusted for individual cash inflows and outflows in excess of \$5,000, during any given quarter. Unless Sterling expressly agrees otherwise in writing, account assets consisting of cash and cash equivalent positions are included in the value of an account's assets for purposes of calculating the fee. Clients can advise Sterling not to maintain (or to limit the amount of) cash or cash equivalent positions in their account. Certain legacy clients may have accepted different pre-existing service offerings from Sterling and may therefore receive services under different fee schedules than as set forth above.

### FINANCIAL PLANNING AND CONSULTING SERVICES (STAND-ALONE)

Sterling offers financial planning and consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. Sterling's planning and consulting fees are negotiable, but generally range from \$2,000 to \$6,000 on a fixed fee basis, depending upon the level and scope of the services required and the professionals providing the services.

### RETIREMENT PLAN CONSULTING SERVICES

The terms and conditions of the retirement plan consulting engagement will be set forth in a Retirement Plan Services Agreement between Sterling and the plan sponsor. Sterling's non-negotiable advisory fee for these services is equal to 0.50% of the value of retirement plan assets.

- B. Clients will have Sterling's advisory fees deducted from their custodial account. Both Sterling's Investment Advisory Agreement and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of Sterling's investment advisory fee and to directly remit that fee to Sterling in compliance with regulatory procedures. Sterling deducts fees quarterly in arrears, based upon the market value of the assets on the last business day of the previous quarter. Sterling uses its portfolio management system to calculate the investment advisory fees charged to clients and deducted by the account custodians. The values used to calculate investment advisory fees may differ from the values shown on the applicable client's custodial statement due to various account activities such as unsettled trades and accrued dividends, which may not be reflected on that client's custodial statement as of the valuation date.

- C. Unless an individual client's circumstances dictate otherwise, Sterling generally recommends that Charles Schwab and Co., Inc. ("Schwab"), Fidelity Investments ("Fidelity") and/or National Advisers Trust Company ("NATC") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers charge transaction fees for executing certain securities transactions according to their fee schedule, and they or their affiliated custodians also impose charges for custodial services / fees associated with maintaining the client's account. For mutual fund and ETF purchases, clients will incur charges imposed by the respective fund, which represent the client's pro rata share of the fund's management fee and other fund expenses. These fees and expenses are described in each fund's prospectus or other offering documents. The fees charged by the applicable broker-dealer/custodian, and the charges imposed by mutual funds and ETFs, are separate from and in addition to Sterling's investment advisory fee described in this Item 5. Sterling does not share in any portion of those fees or expenses.
- D. Sterling's annual investment advisory fee is prorated and paid quarterly, in arrears, based upon the market value of the assets on the last business day of the previous quarter adjusted for individual cash inflows and outflows in excess of \$5,000. The applicable form of agreement between Sterling and the client will continue in effect until terminated by either party by written notice in accordance with the terms of such agreement. Upon termination: a pro-rated portion of the earned but unpaid advanced advisory fee will be due; or Sterling will pro-rate and refund any unearned advanced advisory fees, as applicable.
- E. Neither Sterling, nor its supervised persons accept compensation from the sale of securities other than insurance products described in Item 10.C.

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

Neither Sterling nor any supervised person of Sterling accepts performance-based fees.

## **Item 7            Types of Clients**

Sterling's clients generally include individuals, high net worth individuals, pension and profit sharing plans, trusts and estates. Sterling generally prefers to work with new clients seeking management of at least \$500,000 in investment assets to provide investment advisory services. Sterling, in its sole discretion, may charge a lesser investment advisory fee and/or waive or reduce its minimum asset requirement based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

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

- A. Sterling generally employs the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
  - Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)



Sterling may use the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)

Investment Risk in General. Investing in securities involves risk of loss that clients should be prepared to bear, including the complete loss of principal investment. Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Sterling) will be profitable or equal any specific performance level. Investment strategies such as asset allocation, diversification, or rebalancing do not assure or guarantee better performance and cannot eliminate the risk of investment losses. There is no guarantee that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies. While asset values may increase and client account values could benefit as a result, it is also possible that asset values may decrease, and client account values could suffer a loss.

- B. Sterling's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis Sterling must have access to current/new market information. Sterling has no control over the dissemination rate of market information; therefore, unbeknownst to Sterling, certain analyses may be compiled with outdated market information, severely limiting the value of Sterling's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Sterling's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

- C. Currently, Sterling recommends that certain clients allocate investment assets among various mutual funds, ETFs, individual debt, and individual equity securities, in accordance with the client's designated investment objectives. Each type of security has its own unique set of risks associated with it, and it would not be possible to describe the specific risks of every type of investment. However, the following provides a short description of some of the underlying risks associated with the types of investments that Sterling uses or recommends:

Market Risk. The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk may be caused by external factors (such as economic or political factors) but may also be incurred because of a security's specific underlying investments. Additionally, each security's price can fluctuate based on market movement, which may or may not be due to the security's

operations or changes in its true value. For example, political, economic, and social conditions may trigger market events which are temporarily negative, or temporarily positive.

Unsystematic Risk. Unsystematic risk is the company-specific or industry-specific risk in a portfolio that the investor bears. Unsystematic risk is typically addressed through diversification. However, as indicated above, diversification does not guarantee better performance and cannot eliminate the risk of investment losses.

Value Investment Risk. Value stocks may perform differently from the market as a whole and following a value-oriented investment strategy may cause a portfolio to underperform growth stocks.

Growth Investment Risk. Prices of growth stocks tend to be higher in relation to their companies' earnings and may be more sensitive to market, political and economic developments than other stocks, making their prices more volatile.

Small Company Risk. Securities of small companies are often less liquid than those of large companies and this could make it difficult to sell a small company security at a desired time or price. As a result, small company stocks may fluctuate relatively more in price. In general, small capitalization companies are more vulnerable than larger companies to adverse business or economic developments and they may have more limited resources.

Commodity Risk. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments.

Foreign Securities and Currencies Risk. Foreign securities prices may decline or fluctuate because of: (i) economic or political actions of foreign governments, and/or (ii) less regulated or liquid securities markets. Investors holding these securities are also exposed to foreign currency risk (the possibility that foreign currency will fluctuate in value against the U.S. dollar).

Interest Rate Risk. Fixed income securities and fixed income-based securities are subject to interest rate risk because the prices of fixed income securities tend to move in the opposite direction of interest rates. When interest rates rise, fixed income security prices tend to fall. When interest rates fall, fixed income security prices tend to rise. In general, fixed income securities with longer maturities are more sensitive to these price changes.

Inflation Risk. When any type of inflation is present, a dollar at present value will not carry the same purchasing power as a dollar in the future, because that purchasing power erodes at the rate of inflation.

Reinvestment Risk. Future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate), which primarily relates to fixed income securities.

Credit Risk. The issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's value and impact performance. Credit risk is considered greater for fixed income securities with ratings below investment grade. Fixed income securities that are below investment grade involve higher credit risk and are considered speculative.

Call Risk. During periods of falling interest rates, a bond issuer will call or repay a higher-yielding bond before its maturity date, forcing the investment to reinvest in bonds with lower interest rates than the original obligations.

Regulatory Risk. Changes in laws and regulations from any government can change the market value of companies subject to such regulations. Certain industries are more susceptible to government regulation. For example, changes in zoning, tax structure or laws may impact the return on investments.

Mutual Fund and ETF Risks. An investment in a mutual fund or ETF involves risk, including the risk that the general level of security prices may decline, thereby adversely affecting the investment value. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities, which can result in the loss of principal. Mutual fund and ETF shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains if they sell securities for a profit that cannot be offset by a corresponding loss. Therefore, a mutual fund or ETF client or investor may incur substantial tax liabilities even when the fund underperforms.

An ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of securities held. ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so. Some available ETFs are less than 10 years old. Accordingly, there is limited data available to use when assessing the investment risk of some of these ETFs. As a result, one or more of the following may occur: (i) poor liquidity in or limited availability of the ETFs, or (ii) lack of market depth causing the ETFs to trade at excessive premiums or discounts.

Mutual funds are operated by investment companies that raise money from shareholders and invest it in stocks, bonds, and/or other types of securities. Each fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. Mutual funds charge a separate management fee for their services, so the returns on mutual funds are reduced by the costs to manage the funds. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market. Shares of mutual funds are distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per-share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes in the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro-rata NAV.

There is also no guarantee that an active secondary market for such shares will develop or continue to exist. While clients and investors may be able to sell their ETF shares on an exchange, ETFs generally only redeem shares directly from shareholders when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

Cash and Cash Equivalent Risk. Sterling may hold a portion of client's assets in cash or cash equivalent positions (such as but not limited to money market funds) typically for defensive and liquidity purposes. Investments in these assets may cause a client to miss upswings in the markets.

Cybersecurity Risk. The information technology systems and networks that Sterling and its third-party service providers use to provide services to Sterling's clients employ various controls, which are designed to prevent cybersecurity incidents stemming from intentional or unintentional actions that could cause significant interruptions in Sterling's operations and result in the unauthorized acquisition or use of clients' confidential or non-public personal information. Clients and Sterling are nonetheless subject to the risk of cybersecurity incidents that could ultimately cause them to incur losses, including for example: financial losses, cost, and reputational damage to respond to regulatory obligations, other costs associated with corrective measures, and loss from damage or interruption to systems. Although Sterling has established its systems to reduce the risk of cybersecurity incidents from coming to fruition, there is no guarantee that these efforts will always be successful, especially considering that Sterling does not directly control the cybersecurity measures and policies employed by third-party service providers. Clients could incur similar adverse consequences resulting from cybersecurity incidents that more directly affect issuers of securities in which those clients invest, broker-dealers, qualified custodians, governmental and other regulatory authorities, exchange and other financial market operators, or other financial institutions.

## **Item 9            Disciplinary Information**

Sterling has not been the subject of any disciplinary actions.

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

- A. Neither Sterling, nor its supervised persons, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Sterling, nor its supervised persons, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. Licensed Insurance Agent. Sterling's President and Chief Compliance Officer, Nicholas Nicolette, is a licensed insurance agent of Sterling Financial Group, Inc., d/b/a Sterling Advisors, which is a licensed insurance agency under common control with Sterling. Clients can therefore engage Mr. Nicolette in a separate and individual capacity to purchase insurance products on a commission basis through this affiliated agency. The recommendation by Sterling's representative that a client purchase an insurance commission product through Mr. Nicolette presents a conflict of interest because the receipt of commissions may provide an incentive to recommend insurance products based on commissions to be received, rather than on a particular client's need. No client is under any obligation to purchase any insurance commission products through Mr. Nicolette, Sterling Financial Group, Inc. d/b/a Sterling

Advisors, or any other provider. Clients may purchase insurance products recommended by Sterling through other, non-affiliated insurance agents or agencies.

Trust Company. Sterling Financial Group, Inc. (which is under common control with Sterling) has a *de minimis* shareholder interest in a savings and loan holding company, National Advisors Holding, Inc., which formed a federally chartered trust company, National Advisors Trust Company (“NATC”). NATC provides a low-cost alternative to traditional trust service providers and our firm may refer clients to NATC for trust services if it is in the best financial interest of the client. No client is required to use NATC. Any referral of clients to NATC creates a conflict of interest since it could result in an indirect increased economic benefit to said principals of the firm. However, referrals to NATC are not considered a material part of Sterling’s business.

- D. Sterling does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. Sterling maintains an investment policy relative to personal securities transactions. This investment policy is part of Sterling’s overall Code of Ethics, which serves to establish a standard of business conduct for all of Sterling’s supervised persons that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request. In accordance with Section 204A of the Investment Advisers Act of 1940, Sterling also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Sterling or any person associated with Sterling.
- B. Neither Sterling nor any related person of Sterling recommends, buys, or sells for client accounts, securities in which Sterling or any related person of Sterling has a material financial interest.
- C. Sterling and/or supervised persons of Sterling may buy or sell securities that are also recommended to clients. This practice may create a situation where Sterling and/or supervised persons of Sterling are in a position to benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Sterling did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed before those of Sterling’s clients) and other potentially abusive practices. In accordance with Sterling’s transaction policy, in advance of the purchase of any equity security, supervised persons must receive prior approval from Sterling’s Chief Compliance Officer, Nicholas A. Nicolette, or Ross Weiner.

Sterling has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Sterling’s “Access Persons.” Sterling’s securities transaction policy requires that the Access Person of Sterling must provide the Chief Compliance Officer or their designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or their designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date Sterling selects.

- D. Sterling and its supervised persons may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Sterling and its supervised persons of Sterling are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation could present a conflict of interest. As indicated above in Item 11.C, Sterling has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Sterling's Access Persons.

## **Item 12            Brokerage Practices**

- A. If a client requests that Sterling recommend a broker-dealer/custodian for execution or custodial services, Sterling generally recommends that investment management accounts be maintained at Schwab, Fidelity or NATC. Before engaging Sterling to provide investment management services, the client enters into a formal Investment Advisory Agreement with Sterling setting forth the terms and conditions under which Sterling will manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian. Depending on which broker-dealer/custodian clients select to maintain their account, they may experience differences in customer service, transaction timing, the availability of sweep account vehicles and money market funds, and other aspects of investing that could cause differences in account performance

When seeking "best execution" from a broker-dealer, the determinative factor is not always the lowest possible cost, but whether the transaction represents the best qualitative execution when considering the full range of a broker-dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. Although Sterling cannot guarantee that clients will always experience the best possible execution available, Sterling seeks to recommend a broker-dealer/custodian that will hold client assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. Sterling considers a wide range of factors when recommending a broker-dealer/custodian, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody);
- Capability to execute, clear and settle trades (buy and sell securities for client accounts);
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- Breadth of available investment products (stocks, bonds, mutual funds, ETFs, etc.);
- Quality of services (including research);
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices;
- Reputation, financial strength, and stability; and
- Prior service to Sterling and its other clients.

Broker-dealers/custodians are compensated for their services according to their fee schedules, generally by charging clients commissions or other fees on trades that they execute or that settle into their investment account. Although Sterling will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for all client account transactions. The fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Sterling's investment advisory fees. The client's designated broker-dealer/custodian may also charge clients a flat dollar amount as a "prime broker" or "trade-away" fee for each trade that Sterling executes by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited or settled into the client's investment account. These fees are in addition to the commissions or other compensation clients pay the executing broker-dealer. Therefore, in an attempt to minimize client trading costs, Sterling directs the client's designated broker-dealer/custodian to execute most if not all trades for client accounts.

When doing so, Sterling has determined that having that broker-dealer/custodian execute most trades is consistent with the duty to seek “best execution” of client trades.

1. Research and Other Benefits.

While Sterling does not receive traditional “soft dollar benefits,” Sterling and by extension, its clients receive access to certain institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to retail customers. Schwab and Fidelity also make various support services available to Sterling. Some of those services help Sterling manage or administer its clients’ accounts; while others help it manage and grow its business. Schwab and Fidelity’s support services generally are available on an unsolicited basis (Sterling does not have to request them) and at no charge to Sterling. Schwab and Fidelity’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 and Fidelity include some to which Sterling might not otherwise have access or that would require a significantly higher minimum initial investment by its clients. These services benefit Sterling’s clients and their accounts.

Schwab and Fidelity also make other products and services available to Sterling that benefits Sterling but may only indirectly benefit its clients or their accounts, such as investment research developed by Schwab and Fidelity or third parties that Sterling may use to service clients’ accounts. In addition to investment research, Schwab and Fidelity also make 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 other clients’ accounts; and
- Assist with back-office functions, recordkeeping, and client reporting.

Schwab and Fidelity may offer other services intended to help Sterling manage and further develop its business. These services include:

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

Schwab and Fidelity may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to Sterling. Schwab and Fidelity 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 and Fidelity can provide Sterling with occasional meals and business entertainment for Sterling’s personnel.

2. Sterling does not receive referrals from broker-dealers.

3. Directed Brokerage Sterling does not generally accept directed brokerage arrangements (when a client requires that account transactions be executed through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Sterling will not seek better execution services or prices from other broker-

dealers. As a result, clients 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.

If a client directs Sterling to execute securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to execute account transactions through alternative clearing arrangements that may be available through Sterling. Higher transaction costs adversely impact account performance. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

- B. Sterling will generally execute account transactions for each client independently unless Sterling decides to purchase or sell the same securities for several clients at approximately the same time. Sterling may (but is not obligated to) combine or "bunch" such orders to seek best execution, to negotiate more favorable commission rates, or to equitably allocate differences in prices and commissions or other transaction costs among Sterling's clients, which might have been obtained if the orders were placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Sterling will not receive any additional compensation or remuneration as a result of such aggregation.

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

- A. For those clients to whom Sterling provides investment supervisory services, account reviews are conducted on an ongoing basis by Sterling's Principals and/or supervised persons. All investment supervisory and financial planning clients are advised that it remains their responsibility to advise Sterling of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues, investment objectives and account performance with Sterling on an annual basis, as applicable.
- B. Sterling may conduct account reviews on a non-periodic basis upon a triggering event, such as a change in client investment objectives or financial situation, market events, or specific client request.
- C. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client accounts. Those clients to whom Sterling provides investment supervisory services will also receive a quarterly report from Sterling summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, Sterling receives economic benefits from Schwab and Fidelity including support services and/or products without cost or at a discount. Sterling's clients do not pay more for investment transactions executed and/or assets maintained at Schwab, Fidelity, or any other entity as a result of these arrangements. There is no corresponding commitment made by Sterling to Schwab, Fidelity, or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities, or other investment products as a result of the above arrangement.



- B. If a client is introduced to Sterling by either an unaffiliated or an affiliated solicitor, Sterling may pay that solicitor a referral fee in accordance with the requirements of the Investment Advisers Act of 1940. Any such referral fee will be paid solely from Sterling's investment advisory fee and will not result in any additional charge to the client. If the client is introduced to Sterling by an unaffiliated solicitor, the solicitor is required to: disclose the nature of their solicitor relationship, provide each prospective client with a copy of Sterling's written Brochure and a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between Sterling and the solicitor, including the compensation to be received by the solicitor from Sterling.

## **Item 15      Custody**

Sterling has the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for the client accounts. Those clients to whom Sterling provides investment supervisory services will also receive a quarterly report from Sterling summarizing account activity and performance.

To the extent that Sterling provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Sterling with the account statements received from the account custodian.

The account custodian does not verify the accuracy of Sterling's advisory fee calculation.

Sterling provides other services on behalf of its clients that require disclosure at ADV Part 1, Item 9. In particular, certain clients have signed asset transfer authorizations that permit the qualified custodian to rely upon instructions from Sterling to transfer client funds to "third parties." In accordance with the guidance provided in the SEC Staff's February 21, 2017 Investment Adviser Association No-Action Letter, the affected accounts are not subjected to an annual surprise CPA examination.

## **Item 16      Investment Discretion**

The client can determine to engage Sterling to provide investment advisory services on a discretionary basis. Before Sterling assumes discretionary authority over a client's account, the client will be required to sign an Investment Advisory Agreement, granting Sterling full authority to buy, sell, or otherwise execute investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage Sterling on a discretionary basis may, at any time, impose restrictions, in writing, on Sterling's discretionary authority (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Sterling's use of margin, etc.).

## **Item 17      Voting Client Securities**

- A. Sterling does not vote client proxies. 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, class actions, or other type events pertaining to the client's investment assets.

- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact Sterling to discuss any questions they may have with a particular solicitation.

## **Item 18          Financial Information**

- A. Sterling does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Sterling is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Sterling has not been the subject of a bankruptcy petition.

Sterling's Chief Compliance Officer, Nicholas A. Nicolette, is available to address any questions about this Brochure, Sterling's service offering, or any conflicts of interest presented.