

**Item 1: Cover Page**  
**Firm Brochure (Part 2A of Form ADV)**



March 25, 2022

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This Firm Brochure provides information about the qualifications and business practices of Carolina Wealth Management, Inc. If you have any questions about the contents of this brochure, please contact us at: 252-439-1344, or by email at: [david@mycarolinawealth.com](mailto:david@mycarolinawealth.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 Carolina Wealth Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Part 2A of Form ADV (“Firm Brochure”) contains information about our business practices as well as a description of potential conflicts of interest relating to our advisory business that could affect a client’s account with us. We are providing this material in accordance with Rule 204-3 of the Investment Advisers Act of 1940, which requires a registered investment adviser to provide a written disclosure statement upon entering an advisory relationship.

### **Material Changes since the Last Update:**

Since our firm’s last annual amendment filed on March 29, 2021, the following material changes have occurred:

- Item 4: “Advisory Business” and Item 5: “Fees and Compensation” have been amended to disclose information regarding CWM’s use of separately managed accounts.
- Item 5: “Fees and Compensation” has been amended to disclose that CWM may charge its investment management fee as a fixed dollar amount.
- Item 5: “Fees and Compensation” has been amended to disclose that CWM may charge its financial planning service according to a fixed dollar amount.
- Item 13: “Review of Accounts” has been amended to reflect that accounts are reviewed at least annually.
- Item 16: “Investment Discretion” has been amended to reflect that CWM customarily manages accounts on a non-discretionary basis.

### **Full Brochure Available:**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at 800-372-0452 or by email at [adam@mycarolinawealth.com](mailto:adam@mycarolinawealth.com).

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## **Item 4: Advisory Business**

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### *A. Firm Description*

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Carolina Wealth Management, Inc. (“CWM” or the “Firm”) was founded in 2004 and is currently registered with the Securities and Exchange Commission (“SEC”). The Firm is co-owned by Derek S. Pszenny, David R. Damm and David W. Silver.

CWM provides personalized confidential investment management to individuals, pension and profit-sharing plans, trusts, estates, charitable organizations and small businesses. Advice is provided through consultation with the Client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

CWM is an investment management firm. The firm does not sell annuities, insurance, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder’s fees are accepted.

Investment advice is provided, with the Client making the final decision on investment selection. CWM does not act as a custodian of Client assets. The Client always maintains asset control. While a majority of clients managed by CWM are on a non-discretionary basis, CWM does provide asset management services on a discretionary basis to a limited number of clients.

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### *B. Types of Advisory Services*

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CWM provides investment supervisory services, also known as asset management services, manages investment advisory accounts not involving investment supervisory services, and furnishes investment advice through consultations and issues periodicals about securities.

#### **Investment Management Services**

CWM provides discretionary portfolio management services to its clients, based on the specific needs and objectives of such persons and the suitability of products and services. CWM shall be granted full discretion and authority to manage the client’s account. Accordingly, CWM is authorized to perform various functions without further approval from the client, such as the determination of securities to be purchased or to be sold without permission from the client prior to each transaction.

Prior to engaging CWM to provide any of the aforementioned investment advisory services, CWM requires a written investment management agreement (“IMA”) signed by the client prior to the engagement of services. The IMA outlines the services and fees the clients will incur pursuant to the IMA with CWM.

Upon request, CWM will create an Investment Policy Statement for each client, which outlines the client's current situation (goals, objectives, and risk tolerance levels) and then constructs a plan to aid in the selection of a portfolio that matches each client's specific situation. Investment Advisory Services include, but are not limited to, the following:

- Investment Strategy
- Asset Allocation
- Regular Portfolio Monitoring
- Personal Investment Policy
- Security Selection

As noted, CWM's asset management services are designed to offer portfolio construction and ongoing management of accounts with defined investment strategies to meet the client's personal investment goals and objectives. CWM evaluates the current investments of each client with respect to risk tolerance levels and time horizon. Risk tolerance levels may be documented in the Investment Policy Statement which is provided to our clients upon request. CWM is responsible for providing ongoing re-balancing and continuous monitoring of our clients' securities holdings.

CWM generally limits its money management to open and closed end mutual funds, equities, bonds, fixed income and debt securities, ETFs, and REITs. CWM may use other securities as well to help diversify a portfolio when applicable, and has the ability to service annuities, 529 plans, and other non-custodial accounts.

#### *Separately Managed Accounts*

CWM utilizes the separately managed account ("SMA") services of third-party investment advisory firms to aid in the implementation of an investment portfolio designed by CWM. Before selecting an SMA provider, CWM will ensure the chosen party is properly licensed or registered.

#### **Financial Planning Services**

CWM may provide additional advisory services in the form of financial planning services. These services are provided on a non-discretionary basis. Financial planning services do not involve the active management of client accounts, but instead focus on a client's overall financial situation. If clients wish to execute their financial plan through our CWM, they may separately engage the Firm for asset management services, which are provided on a discretionary basis. Financial planning can be described as helping individuals to determine and set their long-term financial goals through investments, tax planning, asset allocation, risk management, retirement planning, and other areas. The role of the financial planner is to find ways to help the client understand his/her overall financial situation and help the client set financial objectives.

An inherent conflict exists between the interests of CWM and the interests of the client. The client is under no obligation to act upon CWM's recommendation. Should the client elect to act on any recommendation made by CWM, the client is under no obligation to affect the transaction through the Firm.

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### *C. Tailored Relationships*

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CWM offers the same suite of services to all its clients. The management services and recommendations offered by CWM are based on the individual needs of our clients and the suitability of products and services. Specific client financial plans and their implementation are dependent upon the client's Investment Policy Statement which outlines each client's current situation (income, objectives, and risk tolerance levels) and is used to construct a client specific plan to aid in the selection of a portfolio that matches restrictions, needs and targets.

Clients may impose restrictions on investing in certain securities or types of securities in accordance with their values and beliefs. CWM will make every effort to comply with the wishes of the client but cannot guarantee absolute adherence due to its use of indexed products, funds, and ETF's that are controlled by third party managers.

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### *D. Wrap Fee Programs*

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CWM does not participate in and is not a sponsor of wrap fee programs.

Wrap Fee Programs are arrangements between broker-dealers, investment advisers, banks and other financial institutions and affiliated and unaffiliated investment advisers through which the clients of such firms receive discretionary investment advisory, execution, clearing and custodial services in a "bundled" form. In exchange for these "bundled" services, the clients pay an all-inclusive (or "wrap") fee determined as a percentage of the assets held in the wrap account. Due to the nature of its advisory services.

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### *E. Assets Under Management*

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On more than an occasional basis, CWM furnishes advice to Clients on matters not involving securities, such as financial planning matters, taxation issues, and trust services that often include estate planning.

As of December 31, 2021, CWM managed \$587,457,163 on a non-discretionary basis and \$2,020,645 on a discretionary basis.

## Item 5: Fees and Compensation

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### *A. Description and Billing*

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#### **Investment Management Services**

In addition to the information provided in Item 4 (“Advisory Business”), this section provides details regarding CWM’s services along with a description of each service’s fees and compensation arrangements. Lower fees for comparable services may be available from other sources.

CWM’s investment management fee is based on a percentage of the investable assets according to the following schedule:

<u>Percentage</u>	<u>Assets</u>
1.00%	on the first \$1,000,000 (\$1 Million)
0.80%	on the next \$1,000,000 (\$1 Million - \$2 Million)
0.70%	on the next \$2 Million - \$5 Million
0.50%	on the next \$5 Million - \$10 Million
Negotiable	Over \$10 Million

CWM may charge its investment management fee as a fixed dollar amount not to exceed the equivalent of the fee schedule above. Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the Client is at the Client’s discretion. All fees are negotiable.

#### *Separately Managed Accounts*

Clients utilizing SMAs will be charged an annual fee by the SMA provider that is separate from and in addition to CWM’s advisory fee. The maximum annual fee charged by SMA providers will not exceed 1.00%.

#### **Financial Planning & Services**

CWM provides planning services for Clients who need advice on a limited scope of work on an hourly or fixed fee basis. The hourly rate for limited scope engagements is \$250 (plus expenses). The maximum fixed fee will not exceed \$2,500. No advance payment will be accepted.

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### *B. Billing*

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Investment management fees are billed monthly or quarterly, in arrears, based on the value of the account on the last day of the quarter. This means we invoice you after the billing period has ended. Individuals are billed on a quarterly basis, while 401(k) plans are billed on a quarterly or monthly basis, based upon the preference of the record keeper of the plan. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated Client account to facilitate billing. The Client must consent in advance to direct debiting of their investment account. The asset based fees you will pay for our services will be a percentage of the market value of the assets in your account on the last trading day of each calendar month or quarter, as applicable. Fees and timing of payments negotiated on a per client basis.

CWM, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory 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.).

SMA providers have their own billing arrangements that will be outlined in their separate disclosure documents provided to clients. Generally, they will deduct their fee from the client's account(s).

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### *C. Other Fees and Payments*

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Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security. Schwab does not charge transaction fees for U.S. listed equities and exchange traded funds.

Assets are invested primarily in no-load mutual funds and exchange-traded funds, usually through discount brokers. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a discount brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U.S. government securities, options contracts, futures contracts, and interests in partnerships.



Separate Account Managers may be engaged. These managers charge an additional fee. This additional fee varies by manager. Your exact amount of additional fee will be fully disclosed at the time of engagement.

Mutual funds and exchange traded funds (ETF) generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to the Firm.

Performance figures quoted by fund companies in various publications are after their fees have been deducted.

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#### *D. Refund and Termination Policy*

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Clients have right to cancel their respective advisory agreement at any time by notifying us in writing. We also may cancel this agreement at any time by written notice to you. We offer no refunds and we may bill you on a pro rata basis for cancelations and account transfers that happen between billing periods.

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#### *E. Other Compensation*

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Neither CWM nor its supervised persons accept any compensation for the sale of securities or other investment products, including asset-based sales charges or services fees from the sale of mutual funds. CWM does not charge for the publication of periodicals or wealth education services.

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

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#### *Performance-based Compensation*

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CWM does not assess Performance Fees.

Performance-Based Fees (“Performance Fees”) are based on a share of the capital gains or capital appreciation of the assets of a client. Our fees are calculated as described in Item 5 above.

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#### *Side-by-side Management*

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CWM does not provide Side-By-Side Management.

“Side-by-Side Management” refers to a situation in which the same adviser manages accounts that are billed based only on a percentage of assets under management and at the same time manages other accounts for which fees are performance-based.

## **Item 7: Type of Clients**

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### *A. Types of Clients*

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CWM generally provides investment advice to individuals, banks or thrift institutions, investment companies, pension and profit-sharing plans, trusts, estates, or charitable organizations, corporations or business entities.

Client relationships vary in scope and length of service.

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### *B. Account Requirements*

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CWM generally requires a minimum account value of \$500,000, which may be reduced or waived in the sole discretion of the Firm.

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

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### *A. Methods of Analysis*

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Security analysis methods may include charting, fundamental analysis, technical analysis, and cyclical analysis.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that CWM may use include Morningstar Direct and Morningstar Workstation and the internet.

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### *B. Investment Strategies*

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The primary investment strategy used on Client accounts is strategic asset allocation utilizing fund managers with proven track records and low fees. This means that we use both passive and active

managed no load funds as the core investments to a portfolio. We will add satellite holdings for specific needs or to add more diversification to a portfolio. Portfolios are diversified to control the risk associated with traditional markets.

The investment strategy for a specific Client is based upon the objectives stated by the Client during consultations. The Client may change these objectives at any time. Other strategies may include long-term purchases, short-term purchases, trading, and margin transactions. We are not market timers and do not believe this strategy is prudent for our Clients.

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### *C. Risk of Loss*

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All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

**Interest-rate Risk:** Fluctuations in interest rates may 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, bond, or mutual fund may 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 not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.

**Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.

**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 carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who 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 if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.

**Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of 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 may result in bankruptcy and/or a declining market value.

Risks related to particular types of securities are:

**Equity Securities:** The value of the equity securities is subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. While offering greater potential for long-term growth, equity securities are more volatile and riskier than some other forms of investment.

**Exchange Traded Funds ("ETF"):** ETFs are a recently developed type of investment security, representing an interest in a passively managed portfolio of securities selected to replicate a securities index, such as the S&P 500 Index or the Dow Jones Industrial Average, or to represent exposure to a particular industry or sector. Unlike open-end mutual funds, the shares of ETFs and closed-end investment companies are not purchased and redeemed by investors directly with the fund, but instead are purchased and sold through broker-dealers in transactions on a stock exchange. Because ETF and closed-end fund shares are traded on an exchange, they may trade at a discount from or a premium to the net asset value per share of the underlying portfolio of securities. In addition to bearing the risks related to investments in equity securities, investors in ETFs intended to replicate a securities index bear the risk that the ETF's performance may not correctly replicate the performance of the index. Investors in ETFs, closed-end funds and other investment companies bear a proportionate share of the expenses of those funds, including management fees, custodial and accounting costs, and other expenses. Trading in ETF and closed-end fund shares also entails payment of brokerage commissions and other transaction costs.

**Money Market Funds:** A money market fund is technically a security. The fund managers attempt to keep the share price constant at \$1/share. However, there is no guarantee that the share price will stay at \$1/share. If the share price goes down, you can lose some or all of your principal. The SEC notes that "While investor losses in money market funds have been rare, they are possible." In return for this risk, you should earn a greater return on your cash than you would expect from a Federal Deposit Insurance Corporation ("FDIC") insured savings account (money market funds are not FDIC insured). Next, money market fund rates are variable. In other words, you do not know how much you will earn on your investment next month. The rate could go up or go down. If it goes up, that may result in a positive outcome. However, if it goes down and you earn less than you expected to earn, you may end up needing more cash. A final risk you are taking with money market funds has to do with inflation. Because money market funds are considered to be safer than other investments like stocks, long-term average returns on money market funds tends to be less than long term average returns on riskier investments. Over long periods of time, inflation can eat away at your returns.

**Mutual Fund Shares:** Some of the risks of investing in mutual fund shares include: (i) the price to invest in mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads), (ii) investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs, and (iii) investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor

can they directly influence which securities the fund manager buys and sells or the timing of those trades.

**Municipal Bond Risk:** Municipal securities issuers may face local economic or business conditions (including bankruptcy) and litigation, legislation or other political events that could have a significant effect on the ability of the municipality to make payments on the interest or principal of its municipal bonds. In addition, because municipalities issue municipal securities to finance similar types of projects, such as education, healthcare, transportation, infrastructure and utility projects, conditions in those sectors can affect the overall municipal bond market. Furthermore, changes in the financial condition of one municipality may affect the overall municipal bond market. The municipal obligations in which clients invest will be subject to credit risk, market risk, interest rate risk, credit spread risk, selection risk, call and redemption risk and tax risk, and the occurrence of any one of these risks may materially and adversely affect the value of the Client's assets or profits.

### **Item 9: Disciplinary Action**

Registered investment advisers are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Neither CWM nor any of its management persons has been involved in legal or disciplinary events that are related to past or present investment clients.

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

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#### *Financial Industry Activities*

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The primary focus of CWM is offering investment advisory services to current and prospective Clients. One of CWM's principals, David Damm, is licensed in North Carolina for life, health and long-term care insurance. From time to time, CWM offers insurance advice to their advisory Clients and may request Damm's ability to provide insurance quotes. The time invested in the independent insurance business is secondary to the time spent on CWM investment advisory Clients. The types of insurance products recommended by Damm will primarily be term insurance. Clients should understand David Damm receives customary commissions as a result of insurance sales, which creates a conflict of interest for him to recommend Clients purchase insurance products based on the compensation to be earned. To mitigate this conflict, David Damm, as fiduciary, will only recommend insurance products when he believes it to be in the Client's best interest. Clients are under no obligation to utilize Damm's insurance services.

David Silver, Chief Compliance Officer, owns and operates a law practice which is separate from CWM. Clients are not solicited for Silver's legal services. However, should a Client be in need of legal advice, a CWM advisor may recommend consultation with Silver when they believe it to be in the client's best interest.

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

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### *A. Code of Ethics*

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All employees of CWM must act in an ethical and professional manner. In view of the foregoing and applicable provisions of relevant law, CWM has adopted a Code of Ethics in its Employee Policies and Procedures Manual to specify and prohibit certain types of transactions deemed to create conflicts of interest (or the potential for or the appearance of such conflicts), and to establish reporting requirements and enforcement procedures relating to personal trading by CWM personnel. CWM's Code of Ethics in its Employee Policies and Procedures Manual, which specifically deals with professional standards, insider trading, personal trading, gifts and entertainment, and fiduciary duties, establishes ideals for ethical conduct based upon fundamental principles of openness, integrity, honesty, and trust. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

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

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We often own some of the same mutual funds that are recommended to Clients who are of a similar personal and financial means. Since these are open-end mutual funds and no fees or commissions are involved, we believe there is no conflict of interest. Records are kept of all transactions. As knowledgeable and aggressive investors, some of the investments we select for ourselves are not suitable for some Clients.

CWM may buy or sell securities identical to those recommended to Clients for their personal accounts. In addition, any related person(s) may have an interest or position in a security that may also be recommended to a Client.

It is the express policy of CWM that no employee may purchase or sell any security, with the exception of open-end mutual funds, prior to a transaction being implemented for a Client, thereby preventing such employees from benefiting from transactions placed on behalf of such Client.

As these situations represent a conflict of interest, CWM has established restrictions in our Code of Ethics Policy in order to ensure its fiduciary responsibilities.

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### *C. Proprietary and Simultaneous Trading*

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At times, CWM or its affiliated persons may buy or sell securities for its own accounts that it has also recommended to clients. However, any purchase or sale of a security by CWM or a related

person will be subject to CWM's fiduciary duty to client accounts. From time to time, representatives of CWM may buy or sell securities for themselves at or around the same time as CWM's client accounts. In any instance where similar securities are bought or sold, CWM will uphold its fiduciary duty by always transacting on behalf of the client before transacting for its own benefit. CWM will always document any transactions that could be construed as conflicts of interest. To mitigate or remedy any conflicts of interest or perceived conflicts of interest, CWM will monitor its proprietary and personal trading reports for adherence to its Code of Ethics.

## **Item 12: Brokerage Practices**

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### *A. Selection and Recommendation*

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CWM recommends Charles Schwab. It is important to note that Clients may use any broker-dealer they so choose to implement our investment advice pursuant to an investment advisory agreement with CWM.

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

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for your account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below (see "Products and Services Available to Us from Schwab")

### **Your Custody and Brokerage Costs**

For our clients' accounts it maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your brokerage account. For some accounts, Schwab may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Schwab's commission rates and asset-based fees applicable to our client accounts were negotiated based on

our commitment to maintain \$75 million of our clients' assets statement equity in accounts at Schwab. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be if we had not made the commitment. In addition to commissions or asset-based fees Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

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### *B. Business Continuity*

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CWM has created and maintains a written business continuity plan which identifies procedures relating to an emergency or significant business disruption, including death or incapacitation of the investment adviser or any of its representatives. Such procedures are reasonably designed to enable CWM or any of its representatives to meet their obligations to clients.

CWM will also provide clients a list of emergency contact numbers, including those for their custodian, in the case that they are not able to reach CWM due to a continuity issue.

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### *C. Research and Other Soft Dollar Benefits*

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## **Products and Services Available to Us from Schwab**

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 – 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 generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. If we have less than \$10 million in client assets at Schwab, it may charge us quarterly service fees.

Here 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 some substantial number of our clients' accounts, including accounts not maintained at Schwab.

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; and
- 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
- technology, compliance, legal, and business consulting
- publications and conferences on practice management and business succession; and
- 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 business entertainment of our personnel.

### **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 do not have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend, request or require that you maintain your account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in 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. It is primarily supported by the scope, quality and price of Schwab's

services (based on the factors discussed above – please see “How We Select Brokers/Custodians”) and not Schwab’s services that benefit only us. We have \$444.4 million in client assets under management, and do not believe that maintaining at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

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*D. Brokerage for Client Referrals*

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CWM does not receive client referrals from third parties for recommending the use of specific broker-dealer brokerage services.

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*E. Directed Brokerage*

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CWM will recommend to clients Charles Schwab Brokerage, member FINRA and SIPC. These arrangements are designed to maximize efficiency and to be cost effective for CWM’s clients. By requiring clients to use these specific custodians, which CWM has approved, CWM seeks to achieve “best execution” of client transactions. CWM has to date acquired two other investment advisory firms. Clients from these firms are allowed to maintain their accounts at their current brokerage firm.

CWM does not permit clients to direct the use of a particular brokerage firm.

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*F. Order Aggregation*

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CWM may, at times, aggregate sale and purchase orders of securities (“block trading”) for advisory accounts with similar orders in order to obtain the best pricing averages and minimize trading costs. This practice is reasonably likely to result in administrative convenience or an overall economic benefit to the client. Clients also benefit relatively from better purchase or sale execution prices, lower commission expenses or beneficial timing of transactions or a combination of these and other factors. Aggregate orders will be allocated to client accounts in a systematic non-preferential manner. CWM may aggregate or “bunch” transactions for a client’s account with those of other clients in an effort to obtain the best execution under the circumstances.

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*G. Trade Error Policy*

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CWM maintains a record of any trading errors that occur in connection with investment activities of its clients. In accordance with SEC recommendations, CWM will bear any losses due to trading errors and the client account will benefit from any gains due to trading errors.

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

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### *A. Periodic Reviews*

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CWM's management personnel or financial advisors review accounts at least annually. Relevant changes are reviewed by the advisors assigned to the accounts. Account reviews focus on each Client's strategy and evaluate all securities using fundamental and technical analysis.

Clients are encouraged to sit down with the advisor assigned to his/her accounts on a regular basis (Up to 4 times per year) to determine if the goals and objectives of the investment strategy are still appropriate for the Clients individual circumstances. Clients can call for a consultation at any time.

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### *B. Intermittent Review Factors*

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Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a Client's own situation.

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### *C. Reports*

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CWM sends quarterly reports to Clients that contain account balances and performances. We recommend that Clients compare reports sent by CWM to their asset custodial accounts to ensure accuracy with respect to account balances.

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

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### *A. Economic Benefits from Others*

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CWM does not receive an economic benefit (such as sales awards or other prizes) from any third party for providing investment advice or other advisory services to its clients.

CWM's advisers may attend events hosted by third parties with whom CWM may or may not do business with, including fund managers, portfolio managers and others. These third parties may cover the cost of travel, lodging and meals for the advisers who travel to these events. CWM ensures any potential conflict of interest is mitigated by requiring approval for such events and that such events must be educational in purpose. CWM and its advisers do not accept any other economic benefits from these third parties.

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*B. Compensation to Unaffiliated Third Parties*

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CWM may, at times, enter into soliciting agreements to provide cash compensation to third parties for client referrals or introductions to CWM. Our compensation agreements are in accordance with Rule 206(4)-3 under the Investment Adviser Act of 1940 and the applicable state regulations. To the extent required by Rule 206(4)-3 or applicable state regulations; the compensation is disclosed to clients by the third-party referral source in a separate disclosure document. Generally, these arrangements provide compensation equal to a specific percentage of certain fees received by CWM. This arrangement creates a conflict of interest in that cash compensation may impair the solicitor's evaluation of the client's suitability for CWM's programs. To mitigate or remedy this conflict of interest the Chief Compliance Officer will review referrals to ensure suitability with CWM's programs before compensating the solicitor. Prior to compensating any individual for referrals, CWM will ensure that these individual solicitors are appropriately registered as investment adviser representatives, if registration is required by the jurisdictions in which solicitation activities are conducted.

Certain clients that engage CWM's services as result of referrals from Introducing Advisors may pay more or less to obtain CWM's investment management services than do other clients, since a portion of the overall fee may be determined by the Introducing Advisor. In such situations, where the client pays more, the engagement shall result in an additional charge to the client in excess of what the client would have paid if the client were to engage the services of CWM independent of the Introducing Advisor's introduction. Variations in the Introducing Advisor's compensation may be due to the Introducing Advisor's role as an unaffiliated investment adviser or investment adviser representative for the consulting and monitoring services the Introducing Advisor may provide to the client on an ongoing basis relative to the client's engagement of CWM. Such arrangements, and their terms and conditions, are exclusively determined between the client and the Introducing Advisor, and CWM will not be a party to these arrangements. Retail clients may pay more or less to obtain CWM's investment management services than clients referred to CWM by an Introducing Advisor.

## **Item 15: Custody**

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*A. Custodian of Assets*

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Custody means holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them.

CWM has custody due to its authority to deduct advisory fees from client accounts and because it can, subject to a standing letter of authorization, dispose of client funds or securities. CWM will not maintain physical possession of client funds and securities. Instead, client's funds and securities are held by a CWM preferred, qualified custodian.

While CWM does not have physical custody of client funds or securities, payments of fees may be paid by the custodian from the custodial brokerage account that holds client funds pursuant to the client's account application. Prior to permitting direct debit of fees, each client provides written authorization permitting fees to be paid directly from the custodian.

From time to time, CWM may receive standing letters of authorization from a client ("SLOA") whereby the client instructs its custodian to accept instruction from CWM to direct funds from the Client's account to specific accounts of the client ("First Party SLOA") or to third parties unrelated to CWM and its investment adviser representatives ("Third Party SLOA"). CWM will review each SLOA prior to acceptance to ensure it meets these requirements. It will also periodically review the SLOAs it has from Clients to ensure it meets these criteria.

**First Party Standing Letters of Authorization.** Under applicable SEC guidance, CWM may accept First Party SLOAs without being deemed to have custody if the First Party SLOAs meet the following criteria:

It is authorized by the Client.

A copy of the authorization is provided to the qualified custodians.

It clearly specifies the name and account numbers (including ABA routing numbers) on the sending and receiving accounts and the qualified custodian holding each of those accounts.

It identifies the accounts as belonging to the Client.

**Third Party Standing Letters of Authorization.** In the case of Third-party SLOAs, CWM may be deemed to have custody of such Client's funds under applicable federal law. Under applicable SEC guidance, CWM may accept such custody without the requirement to obtain an annual surprise audit examination if the SLOAs meet the criteria set forth below.

The Client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.

The client authorizes CWM, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.

The Client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the Client promptly after each transfer.

The Client has the ability to terminate or change the instruction to the Client's qualified custodian.

CWM and its investment adviser representatives have no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the Client's instruction.

CWM maintains records showing that the third party is not a related party of the investment advisor or located at the same address as the investment advisor.

The Client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

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*B. Account Statements*

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Although CWM is the client's adviser, the client's statements will be mailed or made available electronically by the broker-dealer or custodian. When the client receives these statements, they should be reviewed carefully. Clients should compare asset values, holdings, and fees on the statement to that in the account statement issued the previous period.

### **Item 16: Investment Discretion**

CWM customarily manages client accounts on a non-discretionary basis. By granting CWM non-discretionary authority, CWM is required to obtain the client's permission prior to effecting securities transactions. In limited circumstances, CWM manages accounts on a discretionary basis. By granting CWM discretionary authority, CWM is authorized to execute securities transactions, determine which securities are bought and sold, and the total amount to be bought and sold without obtaining the client's permission.

### **Item 17: Voting Client Securities**

CWM will have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in any Client account. Clients expressly retain the authority and responsibility for, and CWM is expressly abstaining from rendering any advice or taking any action with respect to, the voting of any such proxies.

Unless otherwise noted in the plan document, we will not vote or advise you about how to vote proxies for securities held for your account. The custodian should promptly send you, (as trustee of the plan), all proxies and related shareholder communications for the securities held in your account.

### **Item 18: Financial Information**

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*A. Balance Sheet Requirement*

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CWM is not the qualified custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, six (6) months or more in advance.

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*B. Financial Condition*

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CWM does not have any financial impairment that would preclude the Firm from meeting contractual commitments to clients.

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*C. Bankruptcy Petition*

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CWM has not been the subject of a bankruptcy petition at any time during the last 10 years.

## Privacy Notice

Carolina Wealth Management, Inc. is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment. We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a Client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.