

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



**Sterling Financial Group, Inc.**

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March 2024

This brochure ("Brochure") provides information about the business practices and qualifications of Sterling Financial Group, Inc. Please contact us at (626) 440-9192 or email at [contact@sterlingfg.com](mailto:contact@sterlingfg.com) to discuss any questions you have regarding this brochure or our services. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any State Securities Authority.

Additional information about Sterling Financial Group, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that the use of the term "registered investment adviser" and description of Sterling Financial Group, Inc. and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for more information on the qualifications of our firm, our associates who advise you and our employees.

## **Item 2 – Material Changes**

Sterling Financial Group, Inc. is required to notify clients of any information that has changed since the last annual update of the Firm Brochure (“Brochure”) that may be important to them. Clients can request a full copy of our Brochure or contact us with any questions that they may have about the changes.

Since the last annual amendment filed on 03/29/2023, the following changes have been made:

- As of November 10, 2023, our firm’s main office address is now 201 S Lake Ave, Ste 500, Pasadena, CA 91101. You can still reach us at the same phone number and email address if you have any questions about your account.
- As of October 10, 2023, Kody Brown is now a 10% minority owner of Sterling Financial Group, Inc. Please see Item 4 of this Brochure for more information.
- Our firm has clarified in Item 5 of this Brochure and Item 6 of our Wrap Brochure, that when utilizing margin in client accounts, the value of assets held, as well as the value of the margin utilized, will be counted towards the overall balance of managed assets when determining advisory fee charged. Please see Item 5 of this Brochure and Item 6 of our Wrap Brochure for more information.
- Our firm has increased the range on our hourly fee charged for our Financial Consulting service from \$50 to \$450 (previously \$350). Please see Item 5 of this Brochure for more information.

Our prospective clients are strongly encouraged to read this brochure in its entirety prior to engaging Sterling Financial Group for any advisory services.

Pursuant to SEC Rules, Sterling Financial Group will ensure that clients receive a summary of any materials changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as we experience material changes in the future, we will send you a summary of our “Material Changes,” along with an offer to provide the Brochure under separate cover.

Additional information about Sterling Financial Group and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4 – Advisory Business**

### **A. Description of Firm**

Sterling Financial Group, Inc. is an investment advisory firm that oversees clients' assets and provides a range of comprehensive wealth management services. Our team has the skill and expertise to offer exceptional economic advice and market analysis, as well as a strong network of professionals to refer to for legal and tax advice, enhancing our ability to successfully assist clients in achieving their financial goals. Michael Hatch, Principal and a Director of Sterling Financial Group, Inc. (hereinafter, Sterling Financial Group), has been helping clients in formulating and implementing complex wealth management strategies and managing their assets for over thirty years.

Sterling Financial Group was established in 2019 by Michael P. Hatch, CFP, MBA, JD, and is the significant majority shareholder. Mr. Hatch began his career as a financial advisor in 1989 and has operated predecessor firms as a principal since that time. Kody Brown is a minority shareholder of Sterling Financial Group, and also serves as a Director and Secretary of the firm. Berkeley Harrison serves as the firm's Chief Compliance Officer. Please see Sterling Financial Group's Form ADV Part 1, Schedule A for additional information.

### **B. Types of Advisory Services Offered**

#### **1. Written Financial Planning and Financial Consulting:**

**Written Financial Planning:** Sterling Financial Group offers written financial planning services tailored to our clients' specific circumstances, and such services are typically rendered for a flat fee. Our financial planning services are not tied to the purchase of any product, investment, insurance or other service, and analysis and recommendations are meant to illustrate various strategies, possible cash flow scenarios, and hypothetical tax, estate plan or other philanthropic strategies in an objective manner. This method of creating customized financial plans using a consultative approach assists our clients by considering the client's unique position and using the array of expertise at our disposal to incorporate strategies appropriate to each individual situation.

Creating a written financial plan is an involved process that typically begins with a consultation meeting so our advisors can learn about the client's goals and objectives and obtain an understanding of the client's financial situation. Some planning engagements are solely to address a specific issue or transaction while others can require a more comprehensive review. When providing written financial planning, we rely heavily on data and information provided by the client, such as expense and income schedules, investment statements, pension statements, estate plans, and tax returns. These data points and any assumptions used in our planning forecasts are expressly stated in our financial plans. After the completion of our analysis, we customarily provide clients with a written summary of their financial situation, our observations, and recommendations. It should be noted that we will refer clients to an accountant, attorney, or other adviser, as necessary. Written plans are typically completed within three months of the client signing a Client Agreement with us, assuming that all the information and documents we request from the client are provided on a timely basis. Once the written financial plan is completed and delivered to the client, implementation of any recommendations is at the discretion of the client.

Clients should understand that a conflict of interest exists when Sterling Financial Group recommends its own investment management services to implement investment recommendations, as the firm will receive additional compensation as a result of performing such investment management services. Any implementation of Sterling Financial Group's recommendations is entirely at the client's discretion. Clients can accept or reject at any time some or all recommendations made by Sterling Financial Group and clients retain the authority and discretion

on whether to implement any financial planning recommendations (please see Item 5 below for additional information).

**Financial Consulting:** Sterling Financial Group provides financial consulting for an hourly fee or provides such services on a fixed fee or periodic retainer. The financial consulting process is less formal than our written financial planning service and is generally offered when the circumstances of a client's need for financial consulting advice is anticipated to extend over many months or years, such as a complicated divorce matter, estate or trust settlements, or business transactions. Some financial consulting engagements result in providing the client with a written summary of our observations and recommendations, while other engagements involve our participation in meetings, conference calls and negotiations which will not result in a written summary. We offer financial consulting and expert advice in all the same areas in which we conduct financial planning. The implementation of our financial consulting recommendations is also at the discretion of the client.

**Educational Expense Planning:** As an extension of our Financial Planning & Consulting services, we may help clients evaluate and establish 529 college savings plans. Once established we will periodically review and make recommendations when rebalancing or changing allocations is appropriate.

## **2. Fee Based Investment Management:**

**Wrap Asset Management:** Please see our Form ADV Part 2A: Appendix 1 (Wrap Brochure) for comprehensive information regarding our Wrap Asset Management service.

**Non-Wrap Asset Management:** As part of our Non-Wrap Asset Management service, a portfolio is created, consisting of individual stocks, bonds, exchange traded funds ("ETFs"), options, mutual funds and other public and private securities or investments. The client's individual investment strategy is tailored to their specific needs and may include some or all the previously mentioned securities. Portfolios will be designed to meet a particular investment goal, determined to be suitable to the client's circumstances. Once the appropriate portfolio has been determined, portfolios are continuously and regularly monitored, and if necessary, rebalanced based upon the client's individual needs, stated goals and objectives.

### **Retirement Plan Consulting:**

Our firm provides retirement plan consulting services to employer plan sponsors on an ongoing basis. Generally, such consulting services consist of assisting employer plan sponsors in establishing, monitoring, and reviewing their company's participant-directed retirement plan. As the needs of the plan sponsor dictate, areas of advising may include:

- Establishing an Investment Policy Statement – Our firm will assist in the development of a statement that summarizes the investment goals and objectives along with the broad strategies to be employed to meet the objectives.
- Investment Options – Our firm will work with the Plan Sponsor to evaluate existing investment options and make recommendations for appropriate changes.
- Asset Allocation and Portfolio Construction – Our firm will develop strategic asset allocation models to aid Participants in developing strategies to meet their investment objectives, time horizon, financial situation, and tolerance for risk.
- Investment Monitoring – Our firm will monitor the performance of the investments and notify the client in the event of over/underperformance and in times of market volatility.

- Participant Education – Our firm will provide opportunities to educate plan participants about their retirement plan offerings, different investment options, and general guidance on allocation strategies.

In providing services for retirement plan consulting, our firm does not provide any advisory services with respect to the following types of assets: employer securities, real estate (excluding real estate funds and publicly traded REITS), participant loans, non-publicly traded securities or assets, other illiquid investments, or brokerage window programs (collectively, “Excluded Assets”). All retirement plan consulting services shall be in compliance with the applicable state laws regulating retirement consulting services. This applies to client accounts that are retirement or other employee benefit plans (“Plan”) governed by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). If the client accounts are part of a Plan, and our firm accepts appointment to provide services to such accounts, our firm acknowledges its fiduciary standard within the meaning of Section 3(21) of ERISA as designated by the Retirement Plan Consulting Agreement with respect to the provision of services described therein.

### **C. Advisory Agreements**

#### **1. Information Received by Individual Clients**

At the onset of the Client relationship, we gather information on each client’s investment objectives, risk tolerance, time horizons, and financial goals. Sterling Financial Group does not assume responsibility for the accuracy of the information provided by the client and is not obligated to verify any information received from the client or from any of the client’s other professionals (e.g., attorney, accountant, etc.). Under all circumstances, clients are responsible for promptly notifying us in writing of any material changes to the client’s objectives, risk tolerance, time horizon, and financial goals. If a client notifies Sterling Financial Group of any changes, we will review such changes and implement any necessary revisions to the client’s portfolio.

#### **2. Client Agreements and Disclosures**

Each client is required to enter into a written agreement with Sterling Financial Group setting forth the terms and conditions under which we shall render its services (the “Agreement”). In accordance with applicable laws and regulations, Sterling Financial Group will provide its disclosure Brochure (ADV Part 2A), Brochure Supplement (ADV Part 2B), Form CRS and most recent Privacy Notice to each client prior to or contemporaneously with the execution of the Agreement. The Agreement between Sterling Financial Group and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. Our fees (as discussed below) shall be prorated through the date of termination and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner.

Neither Sterling Financial Group nor the client can assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of Sterling Financial Group shall not be considered an assignment.

As further discussed in Item 15 below, all client assets will be custodied with a qualified custodian. All custodial and execution fees assessed for client’s assets remain the sole responsibility of client.

### **D. Participation in Wrap Programs**

Sterling Financial Group sponsors a Wrap Fee Program. We select investments for client portfolios from

securities offered in the Wrap Program. Sterling Financial Group also determines the allocations and sector weights utilized in the Wrap Program. An appropriate allocation and underlying investments are determined through a consultation with the client. Our firm offers individualized investment advice to our Wrap Asset Management clients. General investment advice will be offered to our Financial Planning & Consulting, Retirement Plan Consulting, Referrals to Third Party Money Management clients.

Clients are permitted to place reasonable restrictions, or make reasonable modifications to existing restrictions, regarding the management of their Wrap Program account. Please refer to our Form ADV Appendix 1 “Wrap Program Brochure” for additional information concerning the Wrap Program.

## **E. Amount of Client Assets Managed**

As of December 31, 2023, the total amount of client assets under management by Sterling Financial Group was **\$321,957,763**. Detailed breakdown as follows:

### Regulatory Assets Under Management

Type of Account	Assets Under Management
Discretionary	\$ 311,031,852
Non-Discretionary	\$ 10,925,911
<b>Total:</b>	<b>\$321,957,763</b>

## **Item 5 – Fees and Compensation**

**Written Financial Planning and Financial Consulting Services:** Sterling Financial Group normally charges a flat fee for Written Financial Planning that generally ranges from \$2,500 to \$12,500. A retainer of fifty percent of the ultimate financial planning fee is typically collected with the signing of the Client Agreement. The remainder of the fee is due within thirty days of the delivery of the completed written plan to the client. In all cases, we will not require a retainer exceeding \$1200 when services cannot be rendered within 6 months.

Sterling Financial Group charges an hourly fee ranging from \$50 to \$450 per hour for Financial Consulting. A retainer fee is not typically required for our Financial Consulting services. The total estimated fee, as well as the ultimate fee that is charged, is based on the scope and complexity of the engagement with the client.

**Educational Expense Planning:** The fees for this service will typically be based on a percentage of the asset value of the account. The exact details will vary and shall be laid out in the executed client advisory agreement.

**Wrap Asset Management:** Please see our ADV 2A Appendix 1: Wrap Fee Program Brochure for details on the fees and compensation arrangements pertinent to our Asset Management services.

At times Sterling Financial Group will utilize margin in client accounts (please refer to Item 8 below for detailed information regarding the risks surrounding margin). When utilizing margin strategies as part of a client’s portfolio account, the firm uses the aggregate value of the client’s margin accounts for determining fees. Thus, fees are charged on the amount of assets in the underlying client account, as well as the margin portion of the account. For example, in an account where the value is \$100K in assets, but \$25K is attributable to margin, the full \$100K will be counted when determining fees.

**Non-Wrap Asset Management:** For clients whose Assets are managed through a non-wrapped program, the maximum annual fee charged for this service will not exceed 0.95%. Fees to be assessed will be outlined in the

advisory agreement to be signed by the Client. Our firm bills on cash unless indicated otherwise in writing. Annualized fees are billed on a pro-rata basis quarterly in advance based on the value of the account(s) on the last day of the month of the previous calendar quarter. Fees are generally not negotiable and will be deducted from client account(s). Adjustments will be made for deposits and withdrawals during the quarter. In rare cases, our firm will agree to directly invoice. As part of this process, Clients understand the following:

- a) The client's independent custodian sends statements at least quarterly showing the market values for each security included in the Assets and all account disbursements, including the amount of the advisory fees paid to our firm;
- b) Clients will provide authorization permitting our firm to be directly paid by these terms. Our firm will send an invoice directly to the custodian; and
- c) If our firm sends a copy of our invoice to the client, a legend urging the comparison of information provided in our statement with those from the qualified custodian will be included.

### **Retirement Plan Consulting:**

Our Retirement Plan Consulting services are billed on a flat (account set-up) fee basis, or a fee based on the percentage of Plan assets under management. The total estimated fee, as well as the ultimate fee charged, is based on the scope and complexity of our engagement with the client. Our one-time flat (account set-up) fees range from \$750 to \$3,500. Ongoing fees based on a percentage of managed Plan assets will not exceed 1.50%. The fee-paying arrangements will be determined on a case-by-case basis and will be detailed in the signed consulting agreement.

### **Other Types of Fees and Expenses**

Clients may also pay holdings charges imposed by the chosen custodian for certain investments, charges imposed directly by a mutual fund, index fund, or exchange traded fund, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), distribution fees, surrender charges, variable annuity fees, IRA and qualified retirement plan fees, mark-ups and mark-downs, spreads paid to market makers, fees for trades executed away from custodian, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions. Our firm does not receive a portion of these fees.

LPL Financial offers a trading platform with certain select exchange traded funds ("ETFs") and Mutual Funds that do not charge transaction fees. The no-transaction-fee ETF trading platform is available to clients participating in LPL Financial's Strategic Wealth Management ("SWM") and Strategic Asset Management ("SAM") programs. Clients will be subject to transaction fees charged by LPL Financial for ETFs not included in LPL Financial's platform and for other types of securities. The limited number of ETFs and Mutual Funds available on LPL Financial's no-transaction fee platform may have higher overall expenses than other types of securities, Mutual Funds and ETFs not included in the platform. Other major custodians have eliminated transaction fees for all ETFs and U.S. listed equities, so clients may pay more for investing in the same securities at LPL Financial.

Wrap clients will not incur transaction costs for trades by their chosen custodian. Charles Schwab & Co., Inc. ("Schwab") and LPL Financial do not charge transaction fees for most U.S. listed equities and exchange traded funds.

More information about this can be found in our separate Wrap Fee Program Brochure.



## **Termination and Refunds**

Either party may terminate the advisory agreement signed with our firm for Wrap Asset Management service in writing at any time. Upon notice of termination our firm will process a pro-rata refund of the unearned portion of the advisory fees charged in advance.

Financial Planning & Consulting clients may terminate their agreement at any time before the delivery of a financial plan by providing written notice. For purposes of calculating refunds, all work performed by us up to the point of termination shall be calculated at the hourly fee currently in effect. Clients will receive a pro-rata refund of unearned fees based on the time and effort expended by our firm.

Either party to a Retirement Plan Consulting Agreement may terminate at any time by providing written notice to the other party. Full refunds will only be made in cases where cancellation occurs within 5 business days of signing an agreement. After 5 business days from initial signing, either party must provide the other party 30 days written notice to terminate billing. Billing will terminate 30 days after receipt of termination notice. Clients will be charged on a pro-rata basis, which takes into account work completed by our firm on behalf of the client. Clients will incur charges for bona fide advisory services rendered up to the point of termination (determined as 30 days from receipt of said written notice) and such fees will be due and payable.

## **Commissionable Securities Sales**

Our firm and representatives do not sell securities for a commission in advisory accounts.

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

We do not charge performance-based fees to our clients.

## **Item 7 – Types of Clients and Account Requirements**

Sterling Financial Group serves Individuals, High-Net-Worth Individuals, Trusts, Estates, Charitable Organizations, Pension and Profit-sharing Plans, as well as Corporations, Limited Liability Companies and/or other types of businesses.

In general, the minimum investment for new clients is \$500,000 subject to a minimum account fee, which is generally \$6,250, however Sterling Financial Group, in its sole discretion can waive such minimums in limited circumstances, such as the referral of a client's family member, or professional referrals.

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

We are committed to helping clients achieve their financial goals and objectives. After developing a thorough understanding of a client's risk tolerance and their short and long-term goals, they are assigned an appropriate investment objective and then a customized investment portfolio. We then choose an appropriate asset allocation to realize a client's desired rate of return with an acceptable amount of risk. We utilize our experience to ensure client accounts are properly diversified and not subject to the volatility of a single sector, industry, or asset class. We monitor our clients' managed accounts and rebalance as necessary, to ensure that they are aligned with their account objective. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

## Preferred Securities

We generally use the following types of investments: mutual funds (including asset allocation funds, index funds, international funds, emerging market funds, real estate funds, high yield bond funds and funds that short the market), ETFs (including commodity funds, precious metal funds, and agricultural funds), variable annuity subaccounts, alternative investments (including managed futures funds, hedge funds, real estate investment trusts and business development companies), individual stocks and bonds, and other more complex or specialized instruments. The investments selected for your particular account will depend upon your investment objective, level of risk tolerance, sensitivity to taxes, and other factors.

When selecting mutual funds, ETFs, and third-party money managers, we examine the experience, expertise, investment philosophies, and past performance of the manager. We do this to determine if that manager has successfully demonstrated an ability to invest over a period of time and in different economic or market conditions. For money managers, we monitor the manager's underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment.

- **Alternative Investments:** Hedge funds, commodity pools, Real Estate Investment Trusts ("REITs"), Business Development Companies ("BDCs"), and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative, and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency as to share price, valuation, and portfolio holdings. Complex tax structures often result in delayed tax reporting. Compared to mutual funds, hedge funds and commodity pools are subject to less regulation and often charge higher fees and may require "capital calls" which would require additional investment. Alternative investment managers typically exercise broad investment discretion and may apply similar strategies across multiple investment vehicles, resulting in less diversification.
- **Business development companies ("BDCs")** are operated for the purpose of making investments in small and developing business, as well as financially troubled businesses. BDCs can also make managerial assistance available to certain companies in its portfolio. BDCs are only required to disclose net asset value on a quarterly basis. BDCs are often characterized as a publicly traded venture capital or private equity firm that is subject to certain provisions of the Investment Company Act. BDCs can be speculative investments because of the types of investments they make. These risks include, but are not limited to, portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, and structural and regulatory risk.
- **Cash & Cash Equivalents:** Cash and cash equivalents generally refer to either United States dollars or highly liquid short-term debt instruments such as, but not limited to, treasury bills, bank CD's and commercial paper. Generally, these assets are considered nonproductive and will be exposed to inflation risk and considerable opportunity cost risk. Investments in cash and cash equivalents will generally return less than the advisory fee charged by our firm. Our firm may recommend cash and cash equivalents as part of our clients' asset allocation when deemed appropriate and in their best interest. Our firm considers cash and cash equivalents to be an asset class. Therefore, our firm assess an advisory fee on cash and cash equivalents unless indicated otherwise in writing.
- **Debt Securities (Bonds):** Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the

security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. Bonds with longer rates of maturity tend to have greater interest rate risks.

Certain additional risk factors relating to debt securities include: (a) When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.; (b) Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.; (c) Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices. (d) Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors. Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond, to the possible risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.; (e) If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.; (f) There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

Our firm attempts to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that our firm will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

- **Exchange Traded Funds ("ETFs"):** An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) whose primary objective is to typically achieve the same return as a particular market index. The vast majority of ETFs are designed to track an index, so their performance is close to that of an index mutual fund, but they are not exact duplicates. A tracking error, or the difference between the returns of a fund and the returns of the index, can arise due to differences in composition, management fees, expenses, and handling of dividends. ETFs benefit from continuous pricing; they can be bought and sold on a stock exchange throughout the trading day. Because ETFs trade like stocks, you can place orders just like with individual stocks - such as limit orders, good-until-canceled orders, stop loss orders etc. They can also be sold short. Traditional mutual funds are bought and redeemed based on their net asset values ("NAV") at the end of the

day. ETFs are bought and sold at the market prices on the exchanges, which resemble the underlying NAV but are independent of it. However, arbitrageurs will ensure that ETF prices are kept very close to the NAV of the underlying securities. Although an investor can buy as few as one share of an ETF, most buy in board lots. Anything bought in less than a board lot will increase the cost to the investor. Anyone can buy any ETF no matter where in the world it trades. This provides a benefit over mutual funds, which generally can only be bought in the country in which they are registered.

One of the main features of ETFs are their low annual fees, especially when compared to traditional mutual funds. The passive nature of index investing, reduced marketing, and distribution and accounting expenses all contribute to the lower fees. However, individual investors must pay a brokerage commission to purchase and sell ETF shares; for those investors who trade frequently, this can significantly increase the cost of investing in ETFs. That said, with the advent of low-cost brokerage fees, small or frequent purchases of ETFs are becoming more cost efficient.

Actively managed ETFs involve a fund manager or management team that researches investment opportunities and actively selects the ETF's portfolio securities and allocation, according to the investment goals that they seek to reach. These ETFs can provide investors/traders with an investment that aims to deliver above-average returns. Actively managed ETFs have the potential to benefit mutual fund investors and fund managers as well. If an ETF is designed to mirror a particular mutual fund, the intraday trading capability will encourage frequent traders to use the ETF instead of the fund. This will reduce cash flow in and out of the mutual fund, making that portfolio easier to manage and more cost-effective. In turn, this can potentially enhance the mutual fund's value for its investors.

- **Equity Securities:** Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices. There may be little trading in the secondary market for particular equity securities, which may adversely affect our firm's ability to value accurately or dispose of such equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities. Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.
- **Index Fund:** A mutual fund or exchange-traded fund ("ETF") designed to follow certain preset rules so that the fund can track a specified basket of underlying investments. Those rules may include tracking prominent indexes like the S&P 500 or the Dow Jones Industrial Average or implementation rules, such as tax-management, tracking error minimization, large block trading or patient/flexible trading strategies that allows for greater tracking error, but lower market impact costs. Index funds may also have rules that screen for social and sustainable criteria. An index fund's rules of construction clearly identify the type of companies suitable for the fund. The most commonly known index fund, the S&P 500 Index Fund, is based on the rules established by S&P Dow Jones Indices for their S&P 500 Index. Equity index funds would include groups of stocks with similar characteristics such as the size, value, profitability and/or the geographic location of the

companies. A group of stocks may include companies from the United States, Non-US Developed, emerging markets or Frontier Market countries. Additional index funds within these geographic markets may include indexes of companies that include rules based on company characteristics or factors, such as companies that are small, mid-sized, large, small value, large value, small growth, large growth, the level of gross profitability or investment capital, real estate, or indexes based on commodities and fixed-income. Companies are purchased and held within the index fund when they meet the specific index rules or parameters and are sold when they move outside of those rules or parameters. Think of an index fund as an investment utilizing rules-based investing. Some index providers announce changes of the companies in their index before the change date and other index providers do not make such announcements.

Index funds must periodically "rebalance" or adjust their portfolios to match the new prices and market capitalization of the underlying securities in the stock or other indexes that they track. This allows algorithmic traders to perform index arbitrage by anticipating and trading ahead of stock price movements caused by mutual fund rebalancing, making a profit on foreknowledge of the large institutional block orders. This results in profits transferred from investors to algorithmic traders. One problem occurs when a large amount of money tracks the same index. According to theory, a company should not be worth more when it is in an index. But due to supply and demand, a company being added can have a demand shock, and a company being deleted can have a supply shock, and this will change the price. This does not show up in tracking error since the index is also affected. A fund may experience less impact by tracking a less popular index.

- **Managed futures funds, hedge funds and non-traded real estate investment trusts** can be purchased within accounts on a non-discretionary basis by clients meeting certain standards. Investing in these funds involves additional risk including, but not limited to, the risk of investment loss due to the use of leveraging and other speculative investment practices and lack of liquidity and performance volatility. In addition, these funds are not required to provide periodic pricing or valuation information to investors and can involve complex tax structures and delays in distributing tax information. You should be aware that many of these funds are illiquid, as there is no secondary trading market available.
- **Mutual Funds:** A mutual fund is a company that pools money from many investors and invests that money in a variety of differing security types based on the objectives of the fund. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares are 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). 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. With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which is calculated daily after market close.

The benefits of investing through mutual funds include: (a) Mutual funds are professionally managed by an investment adviser who researches, selects, and monitors the performance of the securities purchased by the fund; (b) Mutual funds typically have the benefit of diversification, which is an

investing strategy that generally sums up as “Don’t put all your eggs in one basket.” Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.; (c) Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.; and (d) At any time, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption.

Mutual funds also have features that some investors might view as disadvantages: (a) Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distributions they receive. This includes instances where the fund performed poorly after purchasing shares.; (b) 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.; and (c) With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock’s price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund’s NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds, however, are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund’s capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit and cannot use losses to offset these gains.

- **Private Funds:** A private fund is an investment vehicle that pools capital from a number of investors and invests in securities and other instruments. In almost all cases, a private fund is a private investment vehicle that is typically not registered under federal or state securities laws. So that private funds do not have to register under these laws, issuers make the funds available only to certain sophisticated or accredited investors and cannot be offered or sold to the general public. Private funds are generally smaller than mutual funds because they are often limited to a small number of investors and have a more limited number of eligible investors. Many but not all private funds use leverage as part of their investment strategies. Private funds management fees typically include a base management fee along with a performance component. In many cases, the fund’s managers may become “partners” with their clients by making personal investments of their own assets in the fund. Most private funds offer their securities by providing an offering memorandum or private placement memorandum, known as “PPM” for short.

The PPM covers important information for investors and investors should review this document carefully and should consider conducting additional due diligence before investing in the private fund. The primary risks of private funds include the following: (a) Private funds do not sell publicly

and are therefore illiquid. An investor may not be able to exit a private fund or sell its interests in the fund before the fund closes.; and (b) Private funds are subject to various other risks, including risks associated with the types of securities that the private fund invests in or the type of business issuing the private placement.

- **Structured Products:** are securities derived from another asset, such as a security or a basket of securities, an index, a commodity, a debt issuance, or a foreign currency. Structured products frequently limit the upside participation in the reference asset. Structured products are senior unsecured debt of the issuing bank and subject to the credit risk associated with that issuer. This credit risk exists even if the investment held in the account offers principal protection. The creditworthiness of the issuer does not affect or enhance the likely performance of the investment other than the ability of the issuer to meet its obligations. Any payments due at maturity are dependent on the issuer's ability to pay. In addition, the trading price of the security in the secondary market, if there is one, can be adversely impacted if the issuer's credit rating is downgraded. Some structured products offer full protection of the principal invested, others offer only partial or no protection. There is the potential that investors will sacrifice a higher return to obtain the principal guarantee. In addition, the principal guarantee relates to nominal principal and does not offer inflation protection. An investor in a structured product does not have a claim on the underlying investment, whether a security, zero coupon bond, or option. There can be little or no secondary market for the securities and information regarding independent market pricing for the securities can be limited. This is true even if the product has a ticker symbol or has been approved for listing on an exchange. Tax treatment of structured products can be different from other investments held in the account (e.g., income can be taxed as ordinary income even though payment is not received until maturity). Structured CDs that are insured by the FDIC are subject to applicable FDIC limits.

### Investment Strategies

- **Asset Allocation:** The implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame. Asset allocation is based on the principle that different assets perform differently in different market and economic conditions. A fundamental justification for asset allocation is the notion that different asset classes offer returns that are not perfectly correlated, hence diversification reduces the overall risk in terms of the variability of returns for a given level of expected return. Although risk is reduced as long as correlations are not perfect, it is typically forecast (wholly or in part) based on statistical relationships (like correlation and variance) that existed over some past period. Expectations for return are often derived in the same way.

An asset class is a group of economic resources sharing similar characteristics, such as riskiness and return. There are many types of assets that may or may not be included in an asset allocation strategy. The "traditional" asset classes are stocks (value, dividend, growth, or sector-specific [or a "blend" of any two or more of the preceding]; large-cap versus mid-cap, small-cap or micro-cap; domestic, foreign [developed], emerging or frontier markets), bonds (fixed income securities more generally: investment-grade or junk [high-yield]; government or corporate; short-term, intermediate, long-term; domestic, foreign, emerging markets), and cash or cash equivalents. Allocation among these three provides a starting point. Usually included are hybrid instruments such as convertible bonds and preferred stocks, counting as a mixture of bonds and stocks. Other alternative assets that may be considered include: commodities: precious metals, nonferrous metals, agriculture, energy, others.; Commercial or residential real estate (also REITs); Collectibles such as art, coins, or stamps;

insurance products (annuity, life settlements, catastrophe bonds, personal life insurance products, etc.); derivatives such as long-short or market neutral strategies, options, collateralized debt, and futures; foreign currency; venture capital; private equity; and/or distressed securities.

There are several types of asset allocation strategies based on investment goals, risk tolerance, time frames and diversification. The most common forms of asset allocation are: strategic, dynamic, tactical, and core-satellite.

- **Strategic Asset Allocation:** The primary goal of a strategic asset allocation is to create an asset mix that seeks to provide the optimal balance between expected risk and return for a long-term investment horizon. Generally speaking, strategic asset allocation strategies are agnostic to economic environments, i.e., they do not change their allocation postures relative to changing market or economic conditions.
  - **Dynamic Asset Allocation:** Dynamic asset allocation is similar to strategic asset allocation in that portfolios are built by allocating to an asset mix that seeks to provide the optimal balance between expected risk and return for a long-term investment horizon. Like strategic allocation strategies, dynamic strategies largely retain exposure to their original asset classes; however, unlike strategic strategies, dynamic asset allocation portfolios will adjust their postures over time relative to changes in the economic environment.
  - **Tactical Asset Allocation:** Tactical asset allocation is a strategy in which an investor takes a more active approach that tries to position a portfolio into those assets, sectors, or individual stocks that show the most potential for perceived gains. While an original asset mix is formulated much like strategic and dynamic portfolio, tactical strategies are often traded more actively and are free to move entirely in and out of their core asset classes
  - **Core-Satellite Asset Allocation:** Core-Satellite allocation strategies generally contain a 'core' strategic element making up the most significant portion of the portfolio, while applying a dynamic or tactical 'satellite' strategy that makes up a smaller part of the portfolio. In this way, core-satellite allocation strategies are a hybrid of the strategic and dynamic/tactical allocation strategies mentioned above.
- **Bond Funds:** A fund that invests in bonds, or other debt securities. Bond funds can be contrasted with stock funds and money funds. Bond funds typically pay periodic dividends that include interest payments on the fund's underlying securities plus periodic realized capital appreciation. Bond funds typically pay higher dividends than a certificate of deposit ("CD") and money market accounts. Most bond funds pay out dividends more frequently than individual bonds.

Bond Funds can be classified by their primary underlying assets: (a) Government: Government bonds are considered safest, since a government can always "print more money" to pay its debt. In the United States, these are United States Treasury securities or Treasuries. Due to the safety, the yields are typically low.; (b) Agency: In the United States, these are bonds issued by government agencies such as the Government National Mortgage Association (Ginnie Mae), Federal Home Loan Mortgage Corp. (Freddie Mac), and Federal National Mortgage Association (Fannie Mae).; (c) Municipal: Bonds issued by state and local governments and agencies are subject to certain tax preferences and are typically exempt from federal taxes. In some cases, these bonds are even exempt from state or local taxes.; and (d) Corporate: Bonds are issued by corporations. All corporate bonds are guaranteed by the borrowing (issuing) company, and the risk depends on the company's ability to pay the loan at maturity. Some bond funds specialize in high-yield securities (junk bonds), which are corporate bonds carrying a higher risk, due to the potential inability of the issuer to repay the bond. Bond funds specializing in junk bonds – also known as "below investment-grade bonds" –



pay higher dividends than other bond funds, with the dividend return correlating approximately with the risk. Bond funds may also be classified by factors such as type of yield (high income) or term (short, medium, long) or some other specialty such as zero-coupon bonds, international bonds, multisector bonds or convertible bonds.

Fund managers provide dedicated management and save the individual investor from researching issuer creditworthiness, maturity, price, face value, coupon rate, yield, and countless other factors that affect bond investing. Bond funds invest in many individual bonds, so that even a relatively small investment is diversified—and when an underperforming bond is just one of many bonds in a fund, its negative impact on an investor's overall portfolio is lessened. In a fund, income from all bonds can be reinvested automatically and consistently added to the value of the fund. Investors can sell shares in a bond fund at any time without regard to bond maturities.

Bond funds typically charge a fee, often as a percentage of the total investment amount. This fee is not applicable to individually held bonds. Bond fund dividend payments may not be fixed as with the interest payments of an individually held bond, leading to potential fluctuation of the value of dividend payments. The net asset value (“NAV”) of a bond fund may change over time, unlike an individual bond in which the total issue price will be returned upon maturity (provided the bond issuer does not default).

- **Long-Term Purchases:** Our firm may buy securities for your account and hold them for a relatively long time (more than a year) in anticipation that the security’s value will appreciate over a long horizon. The risk of this strategy is that our firm could miss out on potential short-term gains that could have been profitable to your account, or it’s possible that the security’s value may decline sharply before our firm makes a decision to sell.
- **Margin accounts:** When purchasing securities, the securities can be paid for in full, or it is possible to borrow part of the purchase price from the client’s account custodian or clearing firm. If borrowing funds in connection with the client account, the client will be required to open a margin account, which will be carried by the clearing firm. The securities purchased in such an account are the clearing firm’s collateral for its loan to the client. If those securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and as a result, the brokerage firm is required to act in order to maintain the necessary level of equity in the account. The brokerage firm can issue a margin call and/or sell other assets in your account. It is important that each client fully understand the risks involved in trading securities on margin, which are applicable to any margin account that the client can maintain. These risks include the following: (i) the client can lose more funds than deposited in the margin account; (ii) the account custodian or clearing firm can force the sale of securities or other assets in the account; (iii) the account custodian or clearing firm can sell the client’s securities or other assets without contacting the client; (iv) the client is not entitled to choose which securities or other assets in the margin account can be liquidated or sold to meet a margin call; (v) the account custodian or clearing firm can move securities held in a cash account to the margin account and pledge the transferred securities; (vi) the account custodian or clearing firm can increase its “house” maintenance margin requirements at any time and they are not required to provide the client advance written notice; and/or (vii) the client is not entitled to an extension of time on a margin call. It should be noted that our firm bills advisory fees on securities purchased on margin which creates a financial incentive for us to utilize margin in client accounts.

However, in historical practice and as standard operating procedure, SFG does have margin accounts to cover payments or withdrawals on a temporary, short-term basis.

- **Short Sales:** A short sale is a transaction in which an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future. These transactions have a number of risks that make it highly unsuitable for the novice investor. This strategy has a slanted payoff ratio in that the maximum gain is limited, but the maximum loss is theoretically infinite. The following risks should be considered: (1) In addition to trading commissions, other costs with short selling include that of borrowing the security to short it, as well as interest payable on the margin account that holds the shorted security. (2) The short seller is responsible for making dividend payments on the shorted stock to the entity from whom the stock has been borrowed. (3) Stocks with very high short interest may occasionally surge in price. This usually happens when there is a positive development in the stock, which forces short sellers to buy the shares back to close their short positions. Heavily shorted stocks are also susceptible to “buy-ins,” which occur when a broker closes out short positions in a difficult-to-borrow stock whose lenders are demanding it back. (4) Regulators may impose bans on short sales in a specific sector or even in the broad market to avoid panic and unwarranted selling pressure. Such actions can cause a spike in stock prices, forcing the short seller to cover short positions at huge losses.
- **Short-Term Purchases:** When utilizing this strategy, our firm may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). Our firm does this in an attempt to take advantage of conditions that our firm believes will soon result in a price swing in the securities our firm purchase. This approach will result in added trading costs, and tax liabilities as short-term capital gains are taxed at a higher rate than long-term gains.

### Risk of Loss

There are risks associated with investing in securities. The following highlights some of the risks associated with the types of investments that can be purchased for your account.

- Investing in any stock, bond, or any other investment such as a mutual fund, ETF or Separate Account involves **Issuer Risk**. Securities held in a client’s portfolio can experience positive or negative fluctuations including a decline in value because of changes in the financial condition of, or events affecting, the issuers of securities.
- Investing in any company, stock bond or any other investment such as a mutual fund, ETF or Separate Account involves **Management Risk**. Our firm’s opinion of the intrinsic worth of a company or security has the potential to be incorrect, not reflect current market expectations, and there is a potential for us to not make a timely purchase or sale of such securities.
- Investing in **any security** involves some level of risk; stocks, which represent equity or ownership in a company, are considered inherently risky and no return is predictable or guaranteed when investing in any stock or stock-based fund.
- Investing in **international markets** presents additional risks including currency fluctuations, the potential for diplomatic and political instability, regulatory and liquidity risks and foreign taxation among others. The risks of foreign investing are generally greater in emerging markets.

- **High yield bonds** carry greater risks than bonds rated as investment grade. For example, they are issued by organizations that do not qualify for an investment grade rating by one of the rating agencies because of the potential for higher default by the issuer. Further financial difficulties experienced by the issuer can result in a decrease in the market value of the bond, and this has the potential to make it impossible to liquidate the bond prior to maturity.
- **ETFs** are typically investment companies that are legally classified as open-end mutual funds or UITs. However, they differ from traditional mutual funds, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly traded companies. ETF shares can trade at a discount or premium to their net asset value. The difference between the bid price and the ask price is often referred to as the “spread.” The spread varies over time based on the ETF’s trading volume and market liquidity and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs ( e.g.those that invest in commodities), are not registered as an investment company.
- **Real Estate Investment Trusts (“REITs”):** REITs primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exempted status afforded under relevant laws.

REITs involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative, and volatile, and an investor could lose all or a substantial amount of an investment. Additionally, they may lack transparency as to share price, valuation, and portfolio holdings as they are subject to less regulation and often charge higher fees.

## **Item 9 - Disciplinary Information**

There are no 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.

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

Our firm has no other financial industry activities and affiliations to disclose.

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

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high code of ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers, and employees for their personal accounts. To monitor compliance with our personal trading policy, we review personal securities transactions for all our associates.

Furthermore, our firm has established a Code of Ethics which applies to all our associated persons, and requires that all employees of Sterling Financial Group:

- Act in accordance with our duty as a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts and to always act solely in the best interest of each of our clients. We have a fiduciary duty to all clients.
- Conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.
- Attest annually and abide by our Insider Trading and Personal Securities Transactions Policies and Procedures.
- Conduct business with the highest level of ethical standards and to always comply with all federal and state securities laws.
- Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our Code of Ethics was adopted pursuant to SEC rule 204A-1.

This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

LPL Financial's parent company, LPL Investment Holdings Inc. (ticker symbol LPLA), is a publicly traded company. Charles Schwab & Company's parent company, The Charles Schwab Corporation (ticker symbol SCHW), is a publicly traded company. Sterling Financial Group does not recommend or solicit orders of LPL Investment Holdings Inc. or Charles Schwab & Co. stock in Asset Management accounts.

## **Item 12 - Brokerage Practices**

Sterling Financial Group has entered a relationship with LPL Financial and Charles Schwab & Co., who both serve as custodian and executing broker/dealer for asset management accounts. In some cases, clients can choose to select another qualified custodian to execute asset management transactions. Sterling Financial Group requires that clients select and direct the custodian as the sole and exclusive broker/dealer to execute transactions for asset management accounts.

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

Sterling Financial Group receives support services and/or products from LPL Financial, many of which assist Sterling Financial Group to better monitor and service program accounts maintained at LPL Financial; however, some of the services and products benefit Sterling Financial Group and not client accounts. These support services and/or products can be received without cost, at a discount, and/or at a negotiated rate, and can include the following:

- investment-related research
- pricing information and market data
- software and other technology that provide access to client account data

- compliance and/or practice management-related publications
- consulting services
- attendance at conferences, meetings, and other educational and/or social events
- marketing support
- other products and services used by Sterling Financial Group in furtherance of its investment advisory business operations

LPL Financial can provide these services and products directly or can arrange for third party vendors to provide the services or products to Sterling Financial Group. In the case of third-party vendors, LPL Financial can pay for some or all the third party's fees.

These support services are provided to Sterling Financial Group based on the overall relationship between Sterling Financial Group and LPL Financial. It is not the result of soft dollar arrangements or any other express arrangements with LPL Financial that involve the execution of client transactions as a condition to the receipt of services. Sterling Financial Group will continue to receive the services regardless of the volume of client transactions executed with LPL Financial. Clients do not pay more for services because of this arrangement. There is no corresponding commitment made by the Sterling Financial Group to LPL or any other entity to invest any specific amount or percentage of client assets in any specific securities because of the arrangement. However, because Sterling Financial Group receives these benefits from LPL Financial, there is a potential conflict of interest. The receipt of these products and services presents a financial incentive for Sterling Financial Group to recommend that its clients use LPL Financial's custodial platform rather than another custodian's platform.

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

Schwab Advisor Services is Charles Schwab & Company's business serving independent investment advisory firms like Sterling Financial Group. They provide Sterling Financial Group 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 (i.e., Sterling Financial Group does not have to request them) and at no charge to us if we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. Below is a detailed description of Schwab's support services:

*Schwab 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.

*Schwab Services that Perhaps will Not Directly Benefit You.* Schwab also makes available to us other products and services that benefit us but perhaps will not directly benefit you or your account. These products and services assist Sterling Financial Group in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. Sterling Financial Group can use this research to service all, some, or a substantial number of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping, and client reporting.

*Schwab 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 will at times provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also has the option to discount or waive its fees for some of these services or pay all or a part of a third party's fees. In addition, Schwab can provide Sterling Financial Group with other benefits such as occasional business entertainment of our personnel.

Sterling Financial Group's use of Schwab's services stated in the three preceding sections consists of utilizing their access to its institutional brokerage services, including the broad range of investment products, execution of the securities transactions and custody of our client assets. Schwab provides us access to Schwab Advisor Center, which provides us with client account data, facilitates trade execution, pricing, and other market data, facilitates payment of our fees from our clients and other recording keeping functions. Sterling Financial Group does attend some of the education seminars and conferences that Schwab hosts.

### **Sterling Financial Group's Beneficial Interest in Schwab's Services**

The availability of these services from Schwab benefits us because Sterling Financial Group does not have to produce or purchase them. Sterling Financial Group does 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. The \$10 million minimum could give Sterling Financial Group an incentive to recommend 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.

Sterling Financial Group believes, however, that our selection of Schwab as custodian/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) and not Schwab's services that benefit only us. We do not believe that maintaining at least \$10 million of those assets at Schwab to avoid paying Schwab quarterly service fees presents a material conflict of interest.

While Sterling Financial Group strives to achieve the best execution possible for client securities transactions and believes that these custodians have execution procedures that are designed to obtain the best execution possible, there can be no assurance that best execution can be obtained. By selecting a particular

custodian, there is the potential for clients to not achieve the most favorable execution. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. Consistent with the foregoing, while Sterling Financial Group will seek competitive rates, it does not mean Sterling Financial Group will necessarily obtain the lowest possible commission rates for client transactions.

To ensure that brokerage firms selected by Sterling Financial Group are conducting overall best qualitative execution, Sterling Financial Group will periodically (and no less often than annually) evaluate the trading process and brokers utilized. This evaluation will include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

LPL and Schwab generally do not charge Sterling Financial Group client accounts separately for custody services but can be compensated by charging you commissions or other fees on trades that it executes or that settle into your LPL or Schwab account. For some accounts, LPL or Schwab will charge you a percentage of the dollar amount of assets in the account in lieu of commissions. LPL and Schwab's asset-based fees applicable to Sterling Financial Group client accounts were negotiated based on our commitment to maintain Sterling Financial Group client assets in accounts at Schwab or LPL. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be if Sterling Financial Group had not made the commitment. In addition to commissions, or asset-based fees Schwab charges a flat dollar amount as a "trade away" fee for each trade that Sterling Financial Group executes by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, to minimize trading costs, Sterling Financial Group exclusively uses LPL or Schwab to execute trades for your account. Notwithstanding, Sterling Financial Group takes its responsibility to clients seriously, and will recommend a custodian to clients only if it believes it is in the client's best interest.

We seek to make available only custodians who will hold client assets and execute transactions on terms that we feel are most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, but not limited to the following:

- 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).
- Capability 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 ("ETF"s), etc.).
- Availability of investment research and tools that assist us in making investment decisions.
- Competitive pricing 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 clients.
- Availability of other products and services that benefit us, as discussed below.

For accounts receiving Portfolio Management Services, the selection of the advisory platform/program will determine the custodian that is used for the account.

Our firm has a non-soft-dollar arrangement with the custodians from which we receive services such as research and administrative functions including portfolio pricing, account statement generation and fee calculations, software and other technology that provide access to client account data, and attendance at conferences, meetings, and other educational and/or social events. These services are intended to support our firm in conducting business and in serving the best interests of our clients. Our firm does not receive client brokerage commissions (or markups or markdowns) in exchange for research or other products or services. Our recommendation of a qualified custodian to our clients is based on our clients' interests in receiving the best execution and the level of competitive, professional services that the qualified custodians provide.

We perform investment management services for various clients. There are occasions on which portfolio transactions will be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm. Although such concurrent authorizations could be either advantageous or disadvantageous to any one or more accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds, using price averaging, proration, and consistently non-arbitrary methods of allocation.

Sterling Financial Group typically aggregates orders. The advantages to aggregating are that the orders are handled in a way that mitigates market impact (as applicable and possible) and that each client gets the same (average) execution price. We can determine not to aggregate transactions, for example, based on the size of the trades, the number of client accounts, the timing of the trades, the liquidity of the securities, and the discretionary or non-discretionary nature of the trades. If orders are not aggregated, some clients purchasing securities around the same time can potentially receive a less favorable price than other clients. This means that the practice of not aggregating can cost clients more money.

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

Asset Management accounts are reviewed individually on a periodic basis, no less than annually and changes are made to such accounts as appropriate. Such factors that would cause a change to a client's asset allocation or individual investments would include, among other things, our assessment of the economic climate, specific investment attributes, outlooks, and relative value, as well as our understanding of our client's overall objectives, cash flow needs and goals. Please see Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss, for details on our review process.

Any activity in an asset management account will be reflected on the monthly or quarterly statement from the account's custodian, showing account activity as well as positions held in the account at month end. For managed accounts where LPL Financial and/or Schwab serves as the custodian, you will also receive a detailed quarterly performance report prepared by LPL Financial and/or Schwab on behalf of Sterling Financial Group.

Financial Planning clients do not receive reviews of their written plans as such services are deemed completed upon the delivery of their written financial plan or at the conclusion of the time frame or retainer agreement.



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

Currently, Sterling Financial Group does not have any promoter arrangements in place whereby the firm compensates referring parties for client referrals. However, Sterling Financial Group can choose to enter into agreements with individuals and organizations in the future, some of whom can be affiliated or unaffiliated with the firm, that refer clients to the firm. All such agreements will be in writing and comply with the applicable state and federal regulations.

We receive an economic benefit from Schwab and LPL in the form of the support products and services it makes available to us and other independent investment advisers whose clients maintain their accounts at Schwab and/or LPL. In addition, Schwab and LPL have also agreed to pay for certain products and services for which we would otherwise have to pay once the value of our clients' assets in accounts at Schwab and/or LPL reach a certain size. You do not pay more for assets maintained at Schwab and/or LPL because of these arrangements. However, we benefit from the arrangement because the cost of these services would otherwise be borne directly by us. You should consider these conflicts of interest when selecting a custodian. The products and services provided by Schwab and LPL, how they benefit us, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices).

## **Item 15 – Custody**

### *Deduction of Advisory Fees*

While our firm does not maintain physical custody of client assets (which are maintained by a qualified custodian, as discussed above), we are deemed to have custody of certain client assets if given the authority to withdraw assets from client accounts, as further described below under “Third Party Money Movement.” All of our clients receive account statements directly from their qualified custodian(s) at least quarterly upon opening of an account. We urge our clients to carefully review these statements. Additionally, if our firm decides to send its own account statements to clients, such statements will include a legend that recommends the client compare the account statements received from the qualified custodian with those received from our firm. Clients are encouraged to raise any questions with us about the custody, safety or security of their assets and our custodial recommendations.

### *Third Party Money Movement*

On February 21, 2017, the SEC issued a no-action letter (“Letter”) with respect to Rule 206(4)-2 (“Custody Rule”) under the Investment Advisers Act of 1940 (“Advisers Act”). The letter provided guidance on the Custody Rule as well as clarified that an adviser who has the power to disburse client funds to a third party under a standing letter of authorization (“SLOA”) is deemed to have custody. As such, our firm has adopted the following safeguards in conjunction with our custodian:

- 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 the investment adviser, 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.
- The investment adviser has 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.
- The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
- The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

## **Item 16 - Investment Discretion**

We accept discretionary authority over the management of client accounts. Our discretionary authority is limited only to affecting trades in client accounts; we will determine the type and the amount of securities that can be bought or sold without obtaining client consent for each trade. Our clients must sign a discretionary investment advisory agreement with our firm for the management of such accounts. Clients can also elect to have us maintain accounts on a non-discretionary or non-managed basis.

For accounts receiving Portfolio Management Services, we do not have any discretionary authority with respect to client accounts. The Portfolio Manager will maintain discretion and all responsibility for account management.

We do not exercise any discretionary authority when providing Financial Planning and Financial Consulting services.

## **Item 17 - Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. If proxies are sent to our firm, we will forward them on to the client and ask the party who sent them to mail them directly in the future. Clients can call, write, or email us to discuss questions they have about particular proxy votes or other solicitations.

## **Item 18 – Financial Information**

Sterling Financial Group does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Sterling Financial Group does not have any financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.