

# CENTENNIAL SECURITIES

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· Investments & Advice ·

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## Regulation Best Interest Disclosure

This guide summarizes important information concerning the scope and terms of the brokerage services we offer and describes the material conflicts of interest that may arise during our brokerage relationship. We encourage you to review this information carefully, along with any other applicable account agreement(s) and disclosure documents you may receive from us.

As you review this information, we would like to remind you that we are registered with the U.S. Securities and Exchange Commission (SEC) as a Broker-Dealer and an Investment Adviser, providing both brokerage and investment advisory services. Our brokerage services are the primary focus of this guide. For more information regarding our investment advisory services and how they differ from brokerage services, please review the Customer Relationship Summary (or Form CRS) available on the *Our Services* tab of our website at <http://www.centennialsec.com/Our-Services.4.htm>. Our Form CRS contains important information about the types of services we offer, both brokerage and investment advisory, along with general information related to compensation, conflicts of interest, disciplinary action, and other reportable legal information.

*Please carefully review and consider all the information in each section below.*

### Brokerage Services

When you establish a brokerage account with us, you have the ability to buy, sell, and hold investments within your account. The primary service we provide is trade execution. In a brokerage relationship, you will generally pay a commission in exchange for buying and selling securities in your account. While investment recommendations may be provided on a periodic basis, brokerage services do not include ongoing account monitoring and we are not required to provide ongoing advice when acting in a brokerage capacity. All recommendations regarding your brokerage account will be made in a brokerage capacity and, if you have an advisory account, all recommendations regarding your advisory account will be made in an advisory capacity. When we make a recommendation to you, we will expressly tell you orally which account we are discussing.

#### Cash Brokerage and Margin Brokerage Accounts

We provide brokerage services through either a cash account or margin account, based on your eligibility and selection. In a cash brokerage account, you must pay for your purchases in full at the time of the transaction. In a margin brokerage account, you must eventually pay for your purchases in full, but you may borrow part of the purchase price from our Clearing Firm, RBC Correspondent Services, a division of RBC Wealth Management, LLC (“RBC”). This is generally referred to as a “margin loan.” The portion of the purchase price that is loaned to you is secured by securities in your account, also referred to as “collateral.” You will incur interest costs as a result of your margin activity. While many securities are eligible to be used as collateral for a margin loan, some assets are not available for margin collateral purposes.

Given that a margin-enabled brokerage account has specific eligibility requirements, unique costs, and governing regulatory requirements, our default brokerage option is a cash account. You must execute a separate margin agreement before engaging in margin brokerage activity. Included with your margin agreement is a copy of the Margin Disclosure Statement. This statement contains important information you should understand and consider before establishing a margin brokerage relationship with us.

### **Brokerage Account and Product Types**

We offer many different brokerage account types including, individual and joint accounts, trust accounts, partnership accounts, and tax qualified accounts, such as individual retirement accounts (IRAs) and other types of retirement accounts as outlined in our account agreement(s). You should refer to our account agreement(s) or contact us for more information concerning available account types. In regard to investment products, while we cannot guarantee that every possible security will be available, at the firm level, we do not place any material restrictions on the type of security, nor do we offer proprietary products. However, some of our investment professionals may not be licensed as financial advisors or qualified to recommend or sell all types of investment products. For instance, individuals who hold only a Series 6, and not a Series 7, license would be limited to selling mutual funds, variable annuities, unit investment trusts (UITs), and municipal fund securities. For licensing information related to our financial advisors and other investment professionals, please visit <https://brokercheck.finra.org/>.

### **Incidental Brokerage Services, Recommendations, and Account Monitoring**

Within your brokerage account, we may also provide other incidental services such as research reports and recommendations to buy, sell, or hold securities. When we provide recommendations to you regarding any securities transaction or investment strategy, we must act in your best interest and not put our interests ahead of yours. In doing so, we are required to consider cost, reasonably available alternatives, your stated investment objective, risk tolerance, liquidity needs, time horizon, financial needs, tax status, and other financial information you provide us. You may accept or reject any recommendation. It is also your responsibility to monitor the investments in your brokerage account, and we encourage you to do so regularly. We do not provide ongoing monitoring of your brokerage account. If you prefer ongoing monitoring of your account or investments, you should speak with a financial advisor about whether an investment advisory relationship may be more appropriate for you.

Please also consider that from time-to-time we may provide you with additional information and resources to assist you with managing your brokerage account. These may include, but are not limited to, educational resources, sales and marketing materials, performance reports, asset allocation guidance, and/or periodic brokerage account reviews. When we offer these services and information, we do so as a courtesy to you. These activities are not designed to monitor specific investment holdings in your brokerage account, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to trade or hold any particular securities in your brokerage account. Upon your request, we will review such information and reports with you and may provide you with investment recommendations, but we are not under a specific obligation to do so.

### **Clearing Services**

We have entered into an agreement with RBC to carry your account(s) and provide certain back office functions. We and RBC share responsibilities with respect to your account as set-forth in the Designation of Responsibilities that was delivered to you upon opening your account. Please refer to the Designation of Responsibilities for more information regarding how such responsibilities have been allocated between us.

## Understanding Risk

It is important for you to understand that, while we will take reasonable care in developing and making recommendations to you, securities involve risk, and you may lose money. There is no guarantee that you will meet your investment goals, or that our recommended investment strategy will perform as anticipated. Further, some investments involve more risk than others. Higher-risk investments may have the potential for higher returns, but also greater losses. The higher your “risk tolerance,” meaning the amount of risk or loss you are willing and able to accept in order to achieve your investment goals, the more you may decide to invest in higher-risk investment offerings for the potential of greater returns. We align risk tolerances with investment needs to offer you different investment objectives from which to choose (see below). You should select the investment objective and risk tolerance that best aligns with your brokerage account goals and needs.

Investment goals typically have different time horizons and different income and growth objectives. Generally, investment goals are on a spectrum, with “Income” investors typically holding the smallest percentage of higher-risk investments, followed by “Growth and Income” investors holding *some* higher-risk investments, and finally “Growth” investors holding a significant portion of their portfolio in higher-risk investments. Risk tolerance also varies and we measure it on a continuum that increases from “Conservative” to “Moderate” to “Aggressive,” and finally “Trading and Speculation.” See the chart below for details.

Investment Objective	Investment Objective Description	Risk Tolerance	Risk Tolerance Definition
Income	Income portfolios emphasize current income with minimal consideration for capital appreciation and usually have less exposure to more volatile growth assets.	Conservative	Conservative Income investors generally assume lower risk, but may still experience losses or have lower expected income returns.
		Moderate	Moderate Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest income returns.
		Aggressive	Aggressive Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.
Growth & Income	Growth and Income portfolios emphasize a blend of current income and capital appreciation and usually have some exposure to more volatile growth assets.	Conservative	Conservative Growth and Income investors generally assume a lower amount of risk, but may still experience losses or have lower expected returns.
		Moderate	Moderate Growth and Income investors are willing to accept a modest level of risk that may result in increased losses in exchange for the potential to receive modest returns.
		Aggressive	Aggressive Growth and Income investors seek a higher level of returns and are willing to accept a higher level of risk that may result in greater losses.

Growth	Growth portfolios emphasize capital appreciation with minimal consideration for current income and usually have significant exposure to more volatile growth assets.	Conservative	Conservative Growth investors generally assume a lower amount of risk, but may still experience increased losses or have lower expected growth returns.
		Moderate	Moderate Growth investors are willing to accept a modest level of risk that may result in significant losses in exchange for the potential to receive higher returns.
		Aggressive	Aggressive Growth investors seek a higher level of returns and are willing to accept a high level of risk that may result in more significant losses.
Trading and Speculation	Trading and Speculation investors seek out a maximum return through a broad range of investment strategies which generally involve a high level of risk, including the potential for unlimited loss of investment capital.		

Our recommendations are based in-part on your investment objective(s) and risk tolerance as outlined above. We encourage you to carefully consider your investment objective(s) and risk tolerance before investing and ask us if you have questions about which account designation is appropriate for you based on your needs, goals, and tolerance for risk.

**Cash Sweep Program Feature**

Our brokerage services include a Cash Sweep Program feature. This program allows you to earn a return on uninvested cash balances in your brokerage account by allowing cash balances to be automatically “swept” into a “Cash Sweep Vehicle,” until such balances are otherwise required to satisfy obligations arising in your account. These Cash Sweep Vehicles include interest-bearing deposit accounts, and if permissible, money market mutual funds or such other sweep arrangements made available to you. You will receive additional information concerning the Cash Sweep Program in your account agreement(s).

**Account Minimums and Activity Requirements**

There is no firm-level minimum initial account balance required to open a brokerage account with us. However, if you either fail to fund your account or do not return account opening documents as required, your account will be closed. In addition, some types of brokerage accounts have minimum account activity requirements and/or minimum ongoing balance requirements that must be maintained, or your brokerage account will be closed. These requirements are detailed in the account agreement(s) you receive when you open your brokerage account.

You should also understand that our financial advisors may establish their own minimum account balance requirements for the brokerage accounts they service. For example, a financial advisor may choose to service only those brokerage account clients who satisfy account-specific or total household asset conditions. Minimum asset requirements will be disclosed to you orally by your financial advisor.

# Brokerage Fees and Our Compensation

It is important to understand that while a brokerage relationship can be a cost-effective way of investing your assets, it is not for everyone given the fees and costs.

## Transaction-Based Fees

You will pay transaction-based fees for trades you decide to execute, such as buying and selling stocks, bonds, exchange traded funds (ETFs), unit investment trusts (UITs), mutual funds, annuity contracts, exercising options and other investment purchases and sales. These transaction-based fees are generally referred to as a “commission,” “mark up,” “sales load,” or “sales charge.” Transaction-based fees are contingent on a host of factors, including, but not limited to:

- Underlying product selection;
- Your brokerage service model and account type;
- Size of your transaction and/or overall value of your account;
- Frequency of your trading activity; and
- Available discounts and/or fee waivers.

## Account and Service Fees

You will pay fees for various operational services provided to you through your brokerage account. These fees are set at least annually and communicated to you through information included in your account statement and other notifications. These fees do not apply to all account types and may be waived under certain conditions. You should understand that based on the brokerage service model you choose, the same or similar products, accounts, and services may vary in the fees and costs charged to you.

## How We Are Compensated

We receive direct and indirect compensation in connection with your account. Direct compensation is taken directly from the respective account. Indirect compensation is compensation paid in ways other than directly from the account and may impact the value of the associated investments in your account. The sections below describe the compensation that we receive in connection with various investment products that may be available to you.

## Commission Schedule for Stocks, Rights, Warrants, Secondary Market Closed End Funds (CEFs) and Exchange Traded Funds (ETFs)

For equity securities, we will generally apply a commission in exchange for executing the transaction on your behalf. Commissions will generally range from 0.00% – 3.00%, depending on the type of product, the size of the transaction, and the arrangement you have with your financial advisor.

## Debt Securities

For debt securities, we may apply a charge (i.e., markup or markdown) ranging from 0.00% – 2.75% of the amount of your secondary market transaction. Additionally, we may incur gains (or losses) on positions we hold in inventory in response to market movements or other events that impact the value of the securities we own.

## Mutual Funds

We currently offer hundreds, or even thousands, of mutual funds varying in share class structures and investment styles. If you invest in mutual funds, we may receive direct and indirect compensation in connection with such mutual fund investments, as described below.

### **12b-1/Shareholder Service Fees**

Annual “12b-1 fees,” also known as “trails,” are paid to us by the mutual fund company out of fund assets under a distribution and servicing arrangement to cover distribution expenses and sometimes shareholder service expenses that we may provide on the fund’s behalf. Shareholder servicing fees are paid to respond to investor inquiries and provide investors with information about their investments. These fees are asset-based fees charged by the fund family. These fees range from 0.00% – 1.00% per year, depending on the product and share class. These fees may be passed on to us and may in-turn be passed on to your financial advisor as a commission.

### **Front-End Sales Charge Fees/Contingent Deferred Sales Charges (“CDSC”)**

Front-end sales charge fees may be charged and paid to us, including your financial advisor, when you purchase a fund. The front-end sales charge is deducted from the initial investment on certain share classes. This charge normally ranges from 1.00% – 5.75%. Some purchases may qualify for a reduced front-end sales charge due to breakpoint discounts based-on the amount of the transaction and rights of accumulation. In addition, some purchases may qualify for a sales charge waiver based-on the type of account, and/or certain qualifications within the account. You should contact your financial advisor if you believe you are eligible for sales charge waivers.

CDSC is a charge you pay upon withdrawal of money from a fund prior to the end of the fund’s CDSC period. CDSC charges range from 0.00% – 5.75%. CDSC periods can range from zero to seven years. This charge typically exists only on share classes that do not have a front-end sales charge. CDSCs are not charged when you purchase a fund. The fee charged will depend on the share class purchased by the investor. A CDSC is not passed on to your financial advisor. You can find a description of the amount and payment frequency of all fees and expenses charged and paid by the fund in the fund’s prospectus. Fees and expenses disclosed in the fund’s prospectus are charged against the investment values of the fund.

### **Revenue Sharing**

We currently have revenue sharing arrangements with RBC in regard to margin accounts and money market funds, meaning that we get a portion of the interest charged by or paid from these products, respectively. The revenue derived from these arrangements is paid to the firm and is not passed along to the financial advisors.

### **Annuities**

Our annuities consist of fixed, index, and variable annuities. Under arrangements with insurance companies, we, including your financial advisor, receive commissions from the insurance companies for the sale of annuities, as well as ongoing trails. Commissions and trails paid to us vary by product type and may vary by insurance carrier. Please contact your financial advisor if you have questions about the fees associated with specific annuity products.

### **Unit Investment Trusts (UITs)**

Our UITs consist of Equity and Fixed-Income UITs. We, along with your financial advisor, are compensated in ways that vary depending on the type and terms of the UIT portfolio selected. The types of fees received by us are disclosed via the prospectus issued by the UIT provider. Your financial advisor can provide you a copy of the most recent prospectus. The UIT provider deducts fees as compensation from the proceeds available for investments for marketing and distribution expenses, which may include compensating us as described in each UIT prospectus. A common fee structure for UITs that we regularly utilize is an upfront commission of 1.00% per year until maturity (e.g., a product with a duration of 24 months would result in a commission of 2.00%).

## **Training and Education**

We work closely with many product and service providers who provide training and education compensation to offset or reimburse us for costs incurred in conducting comprehensive training and educational meetings for our financial advisors. These meetings or events are held to educate financial advisors on product characteristics, business building ideas, successful sales techniques, product suitability as well as various other topics. In addition, certain vendors provide free or discounted research or other vendor products and services, which can assist our financial advisors with providing services to the plan.

Likewise, from time-to-time, product providers will reimburse us for expenses incurred by individual branch offices in connection with conducting training and educational meetings, conferences, or seminars for financial advisors and participants. Also, financial advisors may receive promotional items, meals or entertainment, or other non-cash compensation from product providers.

Although training and education compensation is not related to individual transactions or assets held in client accounts, it is important to understand that, due to the total number of product providers whose products are offered by us, it is not possible for all companies to participate in a single meeting or event. Consequently, those product providers that do participate in training or educational meetings, seminars or other events gain an opportunity to build relationships with financial advisors; these relationships could lead to increased sales of that particular company's products.

## **Operational Fees**

You may also be charged for various operational services provided to you through your brokerage account. These fees include things like postage and handling, wire transfers, and trade cancellations. We pass along a higher fee for postage and handling than is charged by RBC, resulting in a profit for the firm. Our financial advisors do not personally receive any portion of this as compensation. You may also encounter a small fee (e.g., \$10.00) for trade cancellations, executing wire transfers (e.g., \$15.00), or other operational services. For more information regarding operational fees, please contact your financial advisor.

## **Compensation for Termination of Services**

Other than any CDSC for a fund (as described under the Mutual Funds section above, if applicable), IRA termination fees (when applicable), and account transfer fees, the firm would not receive any additional compensation in connection with the termination of our services. If you have questions or need additional copies, please contact your financial advisor.

## **Brokerage – Excluded Advisory Assets**

As described above, our brokerage services differ from our advisory services. However, in some instances we may allow an advisory client to trade what are referred to as “excluded assets” within their advisory account. Excluded assets are not subject to our advisory program fees. Instead of our advisory fees, these excluded assets are subject to our standard brokerage charges when traded.

## **Conflicts of Interest**

Conflicts of interest exist when we provide brokerage services to you. A conflict of interest is a situation in which we engage in a transaction or activity where our interest is materially adverse to your interest. The mere presence of a conflict of interest does not imply that harm to your interests will occur, but it is important that we acknowledge the presence of such conflicts. Moreover, our regulatory obligations require us to establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest.

Our conflicts of interest are typically the result of compensation structures and other financial arrangements between us, our financial advisors, our clients, and third-parties. We offer a broad range of investment services and products and we receive various forms of compensation from our clients, affiliated and non-affiliated product providers and money managers, and other third-parties, as described above. Securities rules allow us, our financial advisors, and our affiliates to earn compensation when we provide brokerage services to you. However, the compensation that we and our financial advisors receive from you varies based upon the product or service you purchase, which creates a financial incentive to recommend investment products and services that generate greater compensation to us.

We are committed to taking appropriate steps to identify, mitigate, and avoid conflicts of interest to ensure we act in your best interest when providing brokerage recommendations to you. Below you will find additional information related to our conflicts of interest. This information is not intended to be an all-inclusive list of our conflicts, but rather a general description of those conflicts that are material to your brokerage relationship.

## **Compensation We Receive From Clients**

### **Transaction-Based Conflicts**

In your brokerage account you pay certain fees (commissions and sales charges) in connection with buying and selling each investment product, including mutual funds, exchange traded funds, equity securities, bonds, and other security products. Where these fees apply, the more transactions we execute on your behalf, the more compensation that we and your financial advisor receive. This compensation creates an incentive for us to recommend that you buy and sell, rather than hold, investments. We also have an incentive to recommend that you purchase investment products that carry higher fees, instead of products that carry lower fees or no fees at all.

### **Markups and Markdowns for Principal Transactions**

When you buy or sell securities in a brokerage account, and in accordance with industry regulations, we may impose a markup (increase) or markdown (decrease) in the price of transactions we execute on a principal basis. We are compensated based upon the difference (markup) between the price you pay for securities purchased from us and the price we sell such securities to you over the prevailing market price, or the difference (markdown) between the price you sell securities to us and the price we purchase such securities from you below the prevailing market price. We maintain policies and procedures reasonably designed to help ensure compliance with the markup and markdown industry rules.

### **Account Maintenance and Other Administrative Fees**

For the services we provide or make available to you with respect to your brokerage account, we charge certain account maintenance and other administrative fees, including transfer, wire, or other miscellaneous fees, as described above. The higher the fees we charge, the more we are compensated.

## **Compensation We Receive from Third-Parties**

Third-party payments we receive may be based on new sales of investment products, creating an incentive for us to recommend you buy and sell, rather than hold, investments. In other cases, these payments are made on an ongoing basis as a percentage of invested assets, creating an incentive for us to recommend that you buy and hold investments (or continue to invest through a third-party manager or adviser).

The total amount of payments we receive varies from product-to-product and with respect to the third-party investment management products we recommend. It also varies from the compensation we receive in connection with other products and services we may make available to you, including advisory services. We have an incentive to recommend investment products and services that generate greater payments to

us. This compensation generally represents an expense embedded in the investment products and services that is borne by investors, even where it is not paid by the Product Sponsor and not directly from the investment product or other fees you pay.

### **Additional Compensation from Product Sponsors and Other Third-Parties**

We and our financial advisors, associates, employees, and agents receive additional compensation from product sponsors and other third-parties, including:

- Gifts and awards, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings or marketing or advertising initiatives, including services for identifying prospective clients; and
- Payment or reimbursement for the costs associated with education or training events that are attended by our employees, agents, and financial advisors, and for conferences and events that we sponsor.

**Note:** The amount of these payments is not dependent or related to the level of assets you or any other of our clients invest in or with the product sponsor.

### **Product Share Classes**

Some product sponsors offer multiple structures of the same product (e.g., mutual fund share classes) with each option having a unique expense structure, and some having lower costs to you as compared to others. We are incentivized to make available those share classes or other product structures that will generate the highest compensation to us.

## **Compensation Received by Financial Advisors**

Financial advisors are compensated in a variety of ways based on the percentage of revenue generated from sales of products and services to clients, including brokerage account activity. This compensation may vary by the product or service associated with a brokerage recommendation. In addition to upfront transaction-based compensation, some products feature ongoing residual or “trail” payments. Thus, financial advisors are incentivized to recommend products that have higher fees, as well as those with ongoing “trails.”

Typically, a financial advisor’s payout schedule (periodically adjusted by us at our discretion) increases with production. Financial advisors also may be eligible for annual or ongoing bonuses and deferred compensation awards based upon a variety of factors that may include reaching certain production levels. As a result, financial advisors have an incentive to provide brokerage recommendations that result in selling more investment products and services, as well as investment products and services that carry higher fees. Financial advisors also have an incentive to provide brokerage recommendations to gather more assets under management, to increase brokerage trading activity, and to reduce the amount of discounts available to you.

Financial advisors have an incentive to recommend you rollover assets from a Qualified Retirement Plan (QRP) to a brokerage Individual Retirement Account (IRA) because of the compensation they will receive. We maintain policies and procedures designed to ensure that rollover recommendations are in your best interest.

Brokerage accounts, unlike advisory accounts, do not feature an ongoing fee based on assets under management. Financial advisors are incentivized to recommend you transition your brokerage services account to an advisory account to generate ongoing revenue where your brokerage account has minimal trading activity. Further, financial advisors are incentivized to recommend you transition your brokerage

account to an advisory account after you have already placed purchases resulting in commissions and/or other transaction-based brokerage fees. We have controls established to identify and mitigate this risk. Recruitment compensation may be provided to financial advisors who join our firm from another financial firm. This compensation, which may vary by financial advisor, often includes either an upfront or back-end award based upon new client assets to the firm and/or revenue generated from such client assets. This creates an incentive for the financial advisor to recommend the transfer of assets to the firm, including brokerage assets, in order to earn this compensation.

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**\*\*For additional information, contact us at (616) 942-7680 or visit our website at [www.centennialsec.com](http://www.centennialsec.com)\*\***