



## **Wrap Fee Programs**

**Innovation Managed Advisory Program ("I-MAP")  
Premier Managed Advisory Program ("P-MAP")**

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### **Form ADV Part 2A Appendix 1**

This brochure provides information about the qualifications and business practices of Calton & Associates, Inc. If you have any questions about the contents of this brochure, please contact us at 813-264-0440. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Calton & Associates, Inc., is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Calton & Associates, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated December 23, 2015 the following material change has been made to the Form ADV Part 2A:

Item 9 was updated to reflect the fact that, within ERISA accounts, 12b-1 fees received by Calton from mutual funds in the Program will be credited to the Client account. For more information, see the section of Item 9 titled "Registration as Broker-Dealer".

Item 9 was updated to reflect the fact that on September 14, 2016, Financial Industry Regulatory Authority ("FINRA") instituted proceedings pursuant to FINRA Rule 6730(a); FINRA alleged that Calton failed to report TRACE-eligible transactions within the required time frame. Without admitting or denying the allegations, Calton submitted a Letter of Acceptance, Waiver and Consent, which FINRA accepted, in which Calton: (i) consented to the described sanctions and to the entry of the findings; (ii) was censured pursuant to relevant rules and regulations; and (iii) ordered to pay a civil money penalty in the amount of \$5,000.

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## Item 4 Services, Fees, and Compensation

### Description of Services

Calton & Associates, Inc. is a full service Broker Dealer and Registered Investment Advisor that was founded in 1987. Over a quarter of a century old, Calton was built by Advisors, for Advisors, and is privately owned.

As used in this wrap fee program brochure, the words "we", "our" and "us" refer to Calton & Associates, Inc. and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm.

We are the manager and program sponsor to the Premier Managed Advisory Program (P-MAP) and Innovation Managed Advisory Program (I-MAP), whereby client accounts are managed for a calculated fee, subject to a fee minimum, that includes both management services and securities transaction/commission costs. P-MAP and I-MAP are offered to prospective and existing advisory clients and are designed to make asset management services available to clients for a convenient single "wrap fee". Depending upon the number of transactions executed in your account, the overall cost you will incur if you participate in our wrap fee program may be higher or lower than you might incur by separately purchasing the types of securities available in P-MAP and I-MAP.

Prior to becoming a client under P-MAP or I-MAP, you will be required to enter into a separate written agreement with us that sets forth the terms and conditions of the engagement and describes the scope of the services to be provided, and the fees to be paid.

### **Premier Managed Advisory Program (P-MAP)**

P-MAP offers asset allocation into multiple investment 'sleeves'. Sleeves are portfolios that allow the asset manager(s) to focus on a particular asset class or strategy. Sleeves can include equities, fixed income, mutual funds and exchange traded funds. Sleeves are coordinated into your portfolio to achieve your objectives. P-MAP sleeves have been developed by our Investment Research team and/or by third-party asset managers. We will make the investment decisions for your account(s) under P-MAP by combining different proportions of sleeves into a portfolio.

Your relationship begins with you providing information so we can assess your investment objectives, financial situation, risk tolerance, investment time horizon, and other relevant information. This information helps us to determine the optimal program and in selecting asset allocation based on your best interests.

We will combine different sleeves in different proportions to meet a range of investment objectives-

**Capital Preservation:** A portfolio geared towards capital preservation invests predominantly in the fixed income sleeve. This portfolio looks to minimize potential losses and is focused towards clients who like more protection from losses than a stock-invested portfolio may incur.

**Conservative:** This portfolio is suitable for clients whose primary concern is reducing the risk of their assets - such as those approaching retirement, or those who simply desire decreased risk of loss, but may desire some exposure to stocks in order to provide growth potential for their assets.

**Conservative Growth:** This portfolio is suitable for clients who want the potential for some growth of assets. The majority of assets are still invested in the fixed income sleeve, yet there is a reasonable amount of exposure to equity sleeves.

**Moderate:** This portfolio seeks capital preservation and growth of amount invested as near- equal objectives. It is suitable for clients who want the potential for higher returns possible from stocks over time but without extreme variations that can occur in the short term.

**Moderate Growth:** This portfolio is weighted more towards equity sleeves but has a significant amount of funds in the fixed income sleeve. It is suitable for clients that have medium to long term investment horizon.

**Growth:** This portfolio seeks growth of the amount invested by using equity focused sleeves, but tries to balance the risk by also placing a reasonable amount of funds in the fixed income sleeve. It is suitable for clients who are willing to accept some risk in exchange for the potential for higher returns provided by stocks over time.

**Aggressive:** This portfolio invests most of its assets in equity sleeves with only a small proportion invested in bonds. Its goal is to produce growth of the amount invested. It is suitable for clients who are willing to accept significant risk in exchange for the potential for higher returns provided by equities over time. Clients should typically have an investment time horizon of more than five years.

### **Innovation Managed Advisory Program ("I-MAP")**

Our firm and its IARs will construct and directly manage a portfolio of stocks, bonds, mutual funds, and exchange traded funds ("ETFs").

### **Trading Authorization**

P-MAP is offered as a discretionary program. I-MAP is offered on either a discretionary or non-discretionary basis. We will sometime use third party tools and services for which we will incur a charge. Unless otherwise agreed to in writing separately, those fees will be absorbed by our firm in their entirety.

Given the discretionary authority to manage your account under either program, we have the authority and responsibility to formulate investment strategies on your behalf. This authorization includes deciding which securities to buy and sell, when to buy and sell, and in what amounts, in accordance with your investment program, without obtaining your prior consent or approval for each transaction. Discretionary authority is typically granted by the investment management agreement you sign with our firm, a power of attorney, and/or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines, in writing, which will be deemed received by our firm upon being countersigned by our firm. You may change/amend these limitations. Such amendments shall be submitted, in writing, which will be deemed received by our firm upon being countersigned by our firm. We will not wire or transfer funds to third parties without your prior written approval. If you enter into non-discretionary arrangements with our firm, we will obtain your verbal approval prior to executing any transactions on behalf of your account.

If you enter into non-discretionary arrangements with our firm in I-MAP we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

### **Transaction Costs**

Transaction costs are the costs associated with purchasing or selling securities. In our Wrap Fee Programs, any transaction costs associated with your account are included or wrapped into your advisory fee. Other administrative charges may be charged to your account when applicable. Transaction costs do not include custodian related charges for mailgrams, extensions, debit interest,

and other other administrative fees which are additional charges you may incur. Third Party Managers that are responsible for managing a portion of or all of your account, will receive a portion of the advisory fee you pay to our firm, which will depend on the specific third party manager.

### **Fees**

Our fee for P-MAP and I-MAP is based on a percentage of assets under management (AUM). The account management fee is payable quarterly in advance and is computed as one-quarter of the annual fee, based on the AUM on the last business day of the previous calendar quarter. The total annual account fee (Wrap Fee) under P-MAP and I-MAP includes the advisory, clearing, custody and trading fees. It also includes any fees paid to sub-advisors for managing sleeves. The total amount of Wrap Fee is negotiable between the advisor and client subject to a maximum of 2.65% annually. In addition to the Wrap Fee, you may incur certain charges imposed by third parties in connection with investments made through P-MAP and I-MAP. These include, but are not limited to, the following:

- Mutual fund or money market 12b-1 fees, transfer agent fees and distributor fees
- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction fees, certain deferred sales charges on previously purchased mutual funds transferred into the account
- Other transaction charges and service fees
- IRA and qualified retirement plan fees
- Other charges that may be required by law

We may receive a portion of these fees. We reserve the right to charge an administrative fee of \$40 per quarter per account.

We will send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

### **Termination of Advisory Relationship**

Either party may terminate the agreement upon 30 days written notice to the other party. The management fee will be pro-rated for the billing period in which you give cancellation notice. We will refund any unearned fee to you.

### **Wrap Fee Program Disclosures**

- You should be aware that participating in a wrap fee program may cost more or less than the cost of purchasing advisory, brokerage, and custodial services separately and/or from other advisers or broker/dealers.
- Our firm and Associated Persons receive compensation as a result of your participation in the wrap-fee program. This compensation may be more than the amount our firm or our Associated Persons would receive if you paid separately for investment advice, brokerage, and other services. Accordingly, a conflict of interest exists because our firm and our Associated Persons may have a financial incentive to recommend P-MAP.
- P-MAP may create a potential conflict of interest between you and our firm. You should be aware that we may have a disincentive to purchase or sell securities in your account because we pay the transaction costs associated with trades directed to the custodian.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses.

### **Brokerage Practices**

While you are free to choose any broker-dealer or other service provider, we may recommend the brokerage and custodial services of Hilltop Securities, TD Ameritrade, and National Financial Services, among others. In recommending a broker-dealer, we will endeavor to select those brokers or dealers that will provide the best services at the lowest commission rates possible. Price is not the sole factor we consider in evaluating best execution. We also consider the broker's ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, and other services. In recognition of the value of research services and additional brokerage products and services the recommended broker-dealer/custodian provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

If you have engaged the services of a third party investment adviser, participate in a Separate Account Manager program, or participate in the Separate Account Management Platform as described under the "Advisory Services" heading above, you will be required to use the brokerage and/or custodial services of firms used by the Separate Account Manager, Separate Account Management Platform, or the third party investment adviser.

We may also recommend that you use our firm's brokerage facilities, through Hilltop Securities, or National Financial Services. We suggest our brokerage facilities because of our execution capability through Hilltop Securities, and National Financial Services competitive commission rates, and to facilitate the trading and management of clients' accounts by having the majority of client accounts resident at same brokerage firm. As a broker-dealer, we may receive a portion of the transaction fees on execution through National Financial Services or Hilltop Securities.

### **Research and Other Benefits**

We may receive certain benefits from recommended broker-dealer/custodians. These benefits do not depend on the amount of transactions we direct to the broker-dealer/custodian. These benefits may include; a dedicated trading desk that services our clients, a dedicated service group and an account services manager dedicated to our accounts, access to a real time order matching system, ability to block client trades, electronic download of trades, balances and positions in the broker-dealer/custodian's portfolio management software, access to an electronic interface with broker-dealer/custodian's software, duplicate and batched client statements, confirmations and year-end summaries, and the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements.)

We participate in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade through its participation in the Program. We may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice it gives to our clients, although we receive economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the

following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by our related persons. Some of the products and services made available by TD Ameritrade through the program may benefit us but may not benefit its client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop its business enterprise. The benefits received by us or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, we endeavor at all times to put the interests of its clients first. You should be aware, however, that the receipt of economic benefits by our firm or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

### **Directed Brokerage**

Depending on the particular asset management program in which you participate, you may instruct our firm to use one or more particular brokers for the transactions in their accounts. Some asset management programs require you to use a particular broker/dealer in order to participate in the program. If you can, and choose to, direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts. This practice may also prevent our firm from obtaining favorable net price and execution, negotiating commissions, obtaining volume discounts. Under these circumstances, you may pay higher commission charges than our other clients. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will combine orders for accounts held at the same custodian only. When block trading, we will distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions. Block trading does not reduce your transaction costs.

Accounts traded at different custodians will typically receive different prices. In situations where a block order is only partially filled by the executing broker-dealer, we allocate the order to all participating accounts on a *pro rata* basis.

Aggregated orders may include transactions for registered investment companies, employee benefit plans and private investment vehicles (e.g. limited partnerships or limited liability companies) in which our principals or employees are among the investors; however, these accounts will not be given preferential treatment.



## **Item 5 Account Requirements and Types of Clients**

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities.

To open and maintain a P-MAP or I-MAP account, we generally require that you represent and warrant that the value of your account initially is at least \$50,000. At our discretion, we may accept clients with smaller accounts.

## **Item 6 Portfolio Manager Selection and Evaluation**

We are the sponsor and portfolio manager for P-MAP and I-MAP. Should we choose to utilize one or more Portfolio Managers through the course of serving you, the evaluation of each such portfolio manager will be based on data and information from several sources, including the manager, and independent databases. Among the types of information analyzed are historical performance, investment philosophy, investment style, historical volatility and correlation across asset classes. We will also review the manager's Form ADV Part 2 in our evaluation process. In some cases, we may act as portfolio manager.

### **Types of Investments**

We offer advice on equity securities, warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities, U.S. Government securities, options contracts on securities, ETFs, and interest in partnerships investing in real estate and oil and gas interests.

Additionally, we may advise you on other types of investments that we deem appropriate based on your stated goals and objectives. We may also provide advice on other types of investments held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

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

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees.

Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

### **Our Methods of Analysis and Investment Strategies**

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- Charting Analysis - involves the gathering and processing of price and volume information for a particular security. This price and volume information is analyzed using mathematical equations. The resulting data is then applied to graphing charts, which is used to predict future price movements based on price patterns and trends.
- Fundamental Analysis - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the

experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.

- **Technical Analysis** - involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.
- **Cyclical Analysis** - a type of technical analysis that involves evaluating recurring price patterns and trends.
- **Long Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- **Short Term Purchases** - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.
- **Short Sales** - a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price.
- **Margin Transactions** - a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.
- **Options Writing** - a securities transaction that involves selling options. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The buyer pays the seller a premium (the market price of the option at a particular time) in exchange for the seller writing the option.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various relevant factors. Your restrictions and guidelines may affect the composition of your portfolio.

*Charting, Fundamental, and Technical Analysis:* The risk of market timing based on charting and technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day to day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy. The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance. The risk of cyclical analysis is that economic/business cycles may not be predictable and may have many fluctuations between long term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

*Frequent Trading:* We may use investment strategies that involve buying and selling securities frequently in an effort to capture significant market gains and avoid significant losses during a volatile market. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.

*Short-Term Purchases:* We may use short-term purchases as a core investment strategy. Using a short-term purchase strategy generally assumes that we can predict how financial markets will perform in the short-term which may be very difficult and will incur a disproportionately higher amount of

transaction costs compared to long-term trading. There are many factors that can affect financial market performance in the short-term (such as short-term interest rate changes, cyclical earnings announcements, etc.) but may have a smaller impact over longer periods of times.

*Exchange-Traded Funds (ETFs):* ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in particular, 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 may trade at a discount or premium to their net asset value. This 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, in particular those that invest in commodities, are not registered as an investment company. ETFs may be closed and liquidated at the discretion of the issuing company.

*Exchange-Traded Notes (ETNs):* An ETN is a senior unsecured debt obligation designed to track the total return of an underlying market index or other benchmark. ETNs may be linked to a variety of assets, for example, commodity futures, foreign currency and equities. ETNs are similar to ETFs in that they are listed on an exchange and can typically be bought or sold throughout the trading day. However, an ETN is not a mutual fund and does not have a net asset value; the ETN trades at the prevailing market price. Some of the more common risks of an ETN are as follows. The repayment of the principal, interest (if any), and the payment of any returns at maturity or upon redemption are dependent upon the ETN issuer's ability to pay. In addition, the trading price of the ETN in the secondary market may be adversely impacted if the issuer's credit rating is downgraded. The index or asset class for performance replication in an ETN may or may not be concentrated in a specific sector, asset class or country and may therefore carry specific risks. ETNs may be closed and liquidated at the discretion of the issuing company.

*Leveraged and Inverse ETFs, ETNs and Mutual Funds:* Leveraged ETFs, ETNs and mutual funds, sometimes labeled "ultra" or "2x" for example, are designed to provide a multiple of the underlying index's return, typically on a daily basis. Inverse products are designed to provide the opposite of the return of the underlying index, typically on a daily basis. These products are different from and can be riskier than traditional ETFs, ETNs and mutual funds. Although these products are designed to provide returns that generally correspond to the underlying index, they may not be able to exactly replicate the performance of the index because of fund expenses and other factors. This is referred to as tracking error. Continual re-setting of returns within the product may add to the underlying costs and increase the tracking error. As a result, this may prevent these products from achieving their investment objective. In addition, compounding of the returns can produce a divergence from the underlying index over time, in particular for leveraged products. In highly volatile markets with large positive and negative swings, return distortions are magnified over time. Because of these distortions, these products should be actively monitored, as frequently as daily, and are generally not appropriate as an intermediate or long-term holding. To accomplish their objectives, these products use a range of strategies, including swaps, futures contracts and other derivatives. These products may not be diversified and can be based on commodities or currencies. These products may have higher expense ratios and be less tax-efficient than more traditional ETFs, ETNs and mutual funds. We require pre-approval of a designated home office principal before a leveraged strategy can be implemented.

*Short Sales:* Where appropriate given your stated investment objectives and tolerance for risk, we may recommend and manage portfolios consisting of short securities, options, and margin. Clients participating in these types of portfolios will receive additional disclosure information regarding the risks involved with these types of investments. Unhedged, short selling is very risky. Unlike a

straightforward investment in stocks where you buy shares with the expectation that their price will increase so you can sell at a profit, in a "short sale" you borrow stocks from your brokerage firm and sell them immediately, hoping to buy them later at a lower price. Thus, a short seller hopes that the price of a stock will go down in the near future. A short seller thus uses declines in the market to his advantage. He makes money when the stock prices fall and loses when prices go up. The SEC has strict regulations in place regarding short selling. We require pre-approval of a designated home office principal before a short-selling strategy, hedged or unhedged, can be implemented.

There is no ceiling on how much a short seller can lose in a trade. The share price may keep going up and the short seller will have to pay whatever the prevailing stock price is to buy back the shares. However, his gains have a ceiling level because the stock price cannot fall below zero. A short seller has to undertake to pay the earnings on the borrowed securities as long as he chooses to keep his short position open. If the company declares huge dividends or issues bonus shares, the short seller will have to pay that amount to the lender. Any such occurrence can skew the entire short investment and make it unprofitable. The broker can use the funds in the short seller's margin account to buy back his loaned shares or issue a 'call away' to get the short seller to return the borrowed securities. If the broker makes this call when the stock price is much higher than the price at the time of the short sale, then the investor can end up making huge losses.

*Margin:* Buying on margin means borrowing money from a broker to purchase stock. Margin trading allows you to buy more stock than you'd be able to normally. An initial investment of at least \$2,000 is required for a margin account, though some brokerages require more. This deposit is known as the minimum margin. Once the account is opened and operational, you can borrow up to 50% of the purchase price of a stock. This portion of the purchase price that you deposit is known as the initial margin. We may require you to deposit more than 50% of the purchase price. Not all stocks qualify to be bought on margin. When you sell the stock in a margin account, the proceeds go to your broker against the repayment of the loan until it is fully paid. There is also a restriction called the maintenance margin, which is the minimum account balance you must maintain before your broker will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. If for any reason you do not meet a margin call, the brokerage has the right to sell your securities to increase your account equity until you are above the maintenance margin. Additionally, your broker may not be required to consult you before selling. Under most margin agreements, a firm can sell your securities without waiting for you to meet the margin call and you can't control which stock is sold to cover the margin call. You also have to pay the interest on your loan. The interest charges are applied to your account unless you decide to make payments. Over time, your debt level increases as interest charges accrue against you. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The longer you hold an investment, the greater the return that is needed to break even. In volatile markets, prices can fall very quickly. You can lose more money than you have invested. We require pre-approval of a designated home office principal before a margin strategy can be implemented.

*Options:* Options are complex securities that *involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital.* An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date (the "expiration date"). The two types of options are calls and puts:

A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts

are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

Selling options is more complicated and can be even riskier.

The option trading risks pertaining to options buyers are:

- Risk of losing your entire investment in a relatively short period of time.
- The risk of losing your entire investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- European style options which do not have secondary markets on which to sell the options prior to expiration can only realize its value upon expiration.
- Specific exercise provisions of a specific option contract may create risks.
- Regulatory agencies may impose exercise restrictions, which stops you from realizing value.

The option trading risks pertaining to options sellers are:

- Options sold may be exercised at any time before expiration.
- Covered Call traders forgo the right to profit when the underlying stock rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.
- Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- Writers of Naked Puts risk unlimited losses if the underlying stock drops.
- Writers of naked positions run margin risks if the position goes into significant losses. Such risks may include liquidation by the broker.
- Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- The complexity of some option strategies is a significant risk on its own.
- Option trading exchanges or markets and option contracts themselves are open to changes at all times.
- Options markets have the right to halt the trading of any options, thus preventing investors from realizing value.
- Risk of erroneous reporting of exercise value.
- If an options brokerage firm goes insolvent, investors trading through that firm may be affected.
- Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include: market risk, sector risk and individual stock risk. Option trading risks are closely related to stock risks as stock options are a derivative of stocks.

We require pre-approval of a designated home office principal before a naked option writing strategy can be implemented.

*Capital Growth and Income Strategy:* Depending on your needs and investing objectives, we may create a model portfolio for you that seeks to provide current income with the potential for capital appreciation. A growth and income strategy often invests in companies which have earnings growth as well as those that pay dividends. Risks associated with a capital growth and income strategy are similar to those experienced with income strategies and growth strategies. For example, bonds can get called when interest rates drop and it may not be possible to replace a called bond with another paying the same interest and companies can suspend dividends for certain stocks if the company experiences financial problems. Growth investing strategy includes the search of stocks that have a potential for growth. The latter means that at a certain point in time the price of the stock will rise. As a result, growth investors may target young companies that have the potential of exceeding its peers in the industry or sector. Growth investing by its very nature implies risk since some of the young companies may fail.

These risks are addressed by diversifying among multiple asset classes and asset strategies, creating different segments to the portfolio. Any security eligible for inclusion in the portfolio with low or no liquidity may be removed and replaced by the next highest ranked security in the same asset segment. Due to the fluctuating nature of security prices, the weighting of an individual security or sector in the portfolio may change after the portfolio establishment.

*Tax Implications:* Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you continuously consult with a tax professional prior to and throughout the investing of your assets.

Moreover, as a result of revised IRS regulations, custodians and broker-dealers will begin reporting the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, please provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Please note that decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

As disclosed under the "Advisory Business" section in this Brochure, we recommend many types of securities and we do not necessarily recommend one particular type of security over another since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every

type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

Where appropriate, we may recommend and manage portfolios consisting of short leveraged ETFs, options, and margin. Clients participating in these types of portfolios will receive additional disclosure information regarding the risks involved with these types of investments.

When reviewing your investment objectives, we may recommend an investment in a Limited Partnership or similar type product (REITS). At that time, we explain in writing and discuss with you the differences in the investment process, and risk profile between an individually managed account and the partnerships. We will not charge any commissions for the purchase of these products if purchased under the management agreement.

### **Voting Client Securities**

For all the advisory services and programs offered through us, neither we, nor our IARs, have any authority to vote proxies on your behalf. You are solely responsible for receiving and voting proxies for the securities maintained within your account.

For T-MAP accounts, depending on the TPA's proxy voting policies and procedures, the TPA may require that you appoint them as your agent and attorney-in-fact with discretion to vote proxies on your behalf. Please carefully review the TPA's disclosure brochure to understand their proxy voting policies and procedures.

## **Item 7 Client Information Provided to Portfolio Managers**

Through personal discussions in which your goals and objectives are established, we develop your personal investment policy, which we communicate to the portfolio manager managing your account at the inception of our engagement. We communicate changes in your policy to the portfolio manager as they occur.

## **Item 8 Client Contact with Portfolio Managers**

You may contact us with any question regarding your account. We can also seek to arrange communications with any portfolio managers utilized, if you desire.

## **Item 9 Additional Information**

### **Registration as Broker-Dealer**

In addition to being registered as an investment adviser, our firm is also registered as a broker-dealer and is a member FINRA and SIPC. As an introducing broker, we engage in retail securities transactions for investment advisory and non-investment advisory clients, along with certain other activities normally associated with a broker dealer. Our principal business is the sale of securities.

Persons providing investment advice on behalf of our firm may be registered representatives with our firm. In their capacity as registered representatives, these persons may receive commission-based compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products. Within ERISA accounts, 12b-1 fees received by Calton from mutual funds in the Program will be credited to the Client account.

Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm. Furthermore, persons providing investment advice to you are not permitted to earn advisory fees for as much as two years on securities for which they received commissions. After the earlier of two-years, or the date upon which the commission have offset the 2.95% annual fee, the value of the security will be added to the value of your total assets for billing purposes.

### **Insurance Producer**

In addition to being registered as an investment adviser and broker/dealer, our firm is also licensed as an insurance producer which allows us to offer insurance products from a variety of product sponsors. Persons providing investment advice on behalf of our firm may be licensed as insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate from, and are in addition to, our advisory fees. This practice presents a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

### **Recommendation of Other Advisers**

We may recommend that you use a third party adviser ("TPA") based on your needs and best interests. We may receive compensation from the TPA for recommending that you use their services. In such instances, these compensation arrangements present a conflict of interest because we have a financial incentive to recommend the services of the third party adviser. You are not obligated, contractually or otherwise, to use the services of any TPA we recommend.

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

#### *Description of Our Code of Ethics*

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm. Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this wrap fee program brochure.

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

It is our policy that neither our firm nor any persons associated with our firm have any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this wrap fee program brochure.



### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the "Brokerage Practices" section in this wrap fee program brochure for information on our block trading practices. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

### **Review of Accounts**

All portfolio management accounts are monitored by the investment adviser representative assigned to the account either on an ongoing or periodic basis as agreed upon with the client. We recommend quarterly verbal progress reports and annual written progress reports, depending on our specific arrangement with you. You may request a verbal or written report at any time. Additionally, all accounts will be monitored under current FINRA/SEC Broker-Dealer guidelines. Spot checks will occur by any member of the investment committee. The initial investment advisory account form will be approved by a designated supervisor who is a principal of the company.

Designated supervisors will also review transactions in each Client account on an ongoing basis and conduct account reviews annually.

We generally do not provide you with additional or regular written reports in conjunction with account reviews. You will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

### **Client Referrals and Other Compensation**

As disclosed under the "Fees and Compensation" section in this wrap fee program brochure, persons providing investment advice on behalf of our firm may be licensed insurance agents and registered representatives. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the "Fees and Compensation" section. We directly compensate non-employee (outside) consultants, individuals, and/or entities (Solicitors) for client referrals. In order to receive a cash referral fee from our firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. If you were referred to our firm by a Solicitor, you should have received a copy of this wrap fee program brochure along with the Solicitor's disclosure statement at the time of the referral. If you become a client, the Solicitor that referred you to our firm will typically receive either a percentage of the advisory fee you pay our firm for as long as you are a client with our firm or until such time as our agreement with the Solicitor expires, or a one-time, flat referral fee upon your signing an advisory agreement with our firm or some alternative arrangement. You will not pay additional fees above our stated rates and minimums because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms. Solicitors that refer business to more than one investment adviser may have a financial incentive to recommend advisers with more favorable compensation arrangements. We request that our Solicitors disclose to you whether multiple referral relationships exist and that comparable services may be available from other advisers for lower fees and/or where the Solicitor's compensation is less favorable.

## **Financial Information**

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$1,200 in fees six or more months in advance nor have we filed a bankruptcy petition at any time in the past ten years. Therefore, we are not required to include a financial statement with this wrap fee program brochure.

## **Disciplinary Information**

The Florida Office of Financial Regulation and the Financial Industry Regulatory Authority (formerly NASD) have, in the past, taken certain disciplinary actions against Calton & Associates ("Calton") for alleged violations of certain securities regulations, rules, and/or statutory provisions. The matters have been settled, and Calton has paid fines with respect to such violations.

On January 15, 2009, the Florida Office of Financial Regulation ("OFR") entered an Order against Calton for allegedly failing to comply with FINRA Advertising Regulations. The OFR alleged that Calton did not follow its internal compliance procedures, and: (i) failed to approve certain advertisements before its first use; (ii) failed to submit certain advertisements to FINRA's Advertising Regulation in the required time frame; (iii) failed to retain copies of certain advertisements in its compliance files; and (iv) internal inspections conducted by Calton were not reasonably designed to detect and prevent violations of applicable securities regulations. Without admitting or denying the allegations, Calton entered into a Stipulation and Consent Agreement with OFR, in which Calton agreed: (i) to paid a civil money penalty in the amount of \$5,000; (ii) to hire an independent consultant to review its compliance procedures; (iii) to implement all recommendations made by the independent consultant; and (iv) to provide a copy the independent consultant's report to OFR with a attestation of adoption of the recommendations by Calton.

On October 27, 2005, Financial Industry Regulatory Authority ("FINRA") instituted proceedings pursuant to NASD Conduct Rules 2110 and 3010; FINRA alleged that under NASD Marketplace Rule 6230(A) Calton failed to report TRACE-eligible transactions within the required time frame. Without admitting or denying the allegations, Calton submitted a Letter of Acceptance, Waiver and Consent, which FINRA accepted, in which Calton: (i) consented to the described sanctions and to the entry of the findings; (ii) was censured pursuant to relevant rules and regulations; (iii) ordered to pay a civil money penalty in the amount of \$10,000; and (iv) agreed to an undertaking to revise its written supervisory procedures.

On September 14, 2016, Financial Industry Regulatory Authority ("FINRA") instituted proceedings pursuant to FINRA Rule 6730(a); FINRA alleged that Calton failed to report TRACE-eligible transactions within the required time frame. Without admitting or denying the allegations, Calton submitted a Letter of Acceptance, Waiver and Consent, which FINRA accepted, in which Calton: (i) consented to the described sanctions and to the entry of the findings; (ii) was censured pursuant to relevant rules and regulations; and (iii) ordered to pay a civil money penalty in the amount of \$5,000.

More information concerning Calton & Associates' disciplinary disclosures can be obtained from FINRA's BrokerCheck link at: [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

## **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure. We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we

may share some information with our service providers, such as transfer agents, portfolio managers, technology firms, custodians, broker-dealers, accountants, consultants, and attorneys. We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law. You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this wrap fee program brochure if you have any questions regarding this policy.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, the trade error will be corrected in the trade error account of the executing broker-dealer and you will not keep the profit.

We are not responsible for account errors and/or losses that occur where we have used our best efforts (without direct failure on our part) to execute trades in a timely and efficient manner. If a trade or some portion of a trade is not effected or an electronic "glitch" occurs which results in the account not being traded at the same time or at the same price as others, and such occurrence is not a result of our failure to execute or follow its trade procedures, the resulting loss will not be considered a trading error for which we are responsible. In addition, virtually all mutual funds, as disclosed in their prospectuses, reserve the right to refuse to execute trades if, in a fund's sole judgment, the trade(s) would jeopardize the value of the fund. We have no authority to change, alter, amend, or negotiate any provision set forth in a mutual fund prospectus. We are not responsible for trades that are not properly executed by any clearing firm, custodian, mutual fund, or insurance company, when an order has been properly submitted by our firm. Finally, we are not responsible for a unilateral adverse decision by a mutual fund or insurance company to restrict and/or prohibit mutual fund asset management programs.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.

If we receive written or electronic notice of a class action lawsuit, settlement or verdict affecting securities you own, we will forward all notices, proof of claim forms and other materials, to you. Electronic mail is acceptable where appropriate, and you have authorized contact in this manner.