

Calton & Associates Inc. ("Calton or "Firm") is registered as a broker-dealer with the United States Securities and Exchange Commission ("SEC"), and is a member of the Financial Industry Regulatory Authority ("FINRA"), and the Securities Investor Protection Corporation. Calton is also a Registered Investment Adviser with the SEC under the Investment Advisers Act of 1940. Therefore, Calton provides retail investors with services and may act in one or both capacities, as a broker-dealer providing commission-based brokerage services or as a Registered Investment Adviser providing fee-based investment advisory services and advice.

This **Brokerage Disclosure Brochure** covers commission-based brokerage services offered by Calton.

The purpose of this Brokerage Disclosure Brochure is to provide detail about the scope and terms of the relationship between Calton, its Financial Professionals, and you as a retail customer of the Firm. This includes the following:

1. How Calton acts as a broker-dealer and how your Financial Professional acts as an associated person of a broker-dealer;
2. the type and scope of services that may be provided to you, including certain limitations on the securities or investment strategies involving securities that may be recommended to you;
3. the fees, expenses and costs that apply to your transactions, holdings, and accounts; and,
4. the conflicts of interest that are associated with the recommendations we make.

The Brokerage Services Brochure provides more information and detail about Calton's commission-based brokerage services and supplements Calton's **Customer Relationship Summary, or Form CRS** which was provided to you by your Financial Professional.

#### **Calton is a Broker-Dealer and your Financial Professional is an Associated Person of Calton**

Calton is a broker-dealer that provides commission-based brokerage services to its customers. Commission-based brokerage services include recommending the purchase, sale, and exchange of securities. Your Financial Professional, who is an associated person of the Firm, will review your personal financial situation, investment objectives, investment experience, time horizon and risk tolerance and make recommendations to you as follows:

1. regarding the decision to open one or more commission-based brokerage accounts with Calton;
2. regarding the decision to buy, sell, exchange, or hold securities in your commission-based brokerage account(s); and
3. regarding the recommendations of certain investment strategies.

When providing commission-based brokerage services and recommendations, neither Calton or your Financial Professional provide fiduciary investment advice and we do not act as fiduciaries to your commission-based brokerage accounts. Calton and/or its Financial Professionals only act as fiduciaries when they provide fee-based investment advisory services and advice, which are described in the Form CRS, and Calton's Form ADV Part 2A Investment Advisory Disclosure Brochure and the Financial Professional's Form ADV Part 2B Individual Disclosure Brochure that are required to be provided to you when offering fee-based investment advisory services and advice.

Calton and your Financial Professional must comply with the SEC's "Regulation Best Interest" rule when making recommendations to you. The SEC's Regulation Best Interest rule requires that Calton and your Financial Professional must always act in your best interest and may not place our financial or other interests ahead of your interests.

### **Type and Scope of Services Provided to You**

Calton's commission-based brokerage services include recommending the purchase, sale and exchange of securities for which Calton and its Financial Professional receive a commission from the execution of transactions in your account(s). Calton and your Financial Professional will make recommendations to you as follows:

1. to open one or more commission-based brokerage accounts with Calton,
2. to buy, sell, exchange, or hold securities in your brokerage account(s), and
3. to use certain investment strategies in your brokerage account(s).

### **Recommendations to Open One or More Accounts**

Your Financial Professional may recommend that you open one or more commission-based brokerage accounts held at the Firm or directly with a product sponsor. There are different types of commission-based brokerage accounts offered by the Firm including the following:

1. Individual Cash Accounts
2. Individual Retirement Accounts ("IRAs")
3. Roth IRAs
4. Individual accounts and IRA accounts held directly at the product sponsor
5. 529 Plan Accounts
6. Coverdell Education Savings Accounts
7. Uniform Gift to Minors Act ("UGMA") Accounts
8. Uniform Transfer to Minors Act ("UTMA") Accounts
9. Trust Accounts
10. Margin Accounts
11. Option Accounts

Calton opens a commission-based brokerage account(s) for you when you complete a **New Account Form**. The New Account Form includes information about you and your financial situation. When Calton purchases or sells securities in your commission-based brokerage account(s), the Firm will provide you with a confirmation of the transaction showing the purchase or sales price and the commission charged.

### **Fee-based Investment Advisory Accounts**

Calton and your Financial Professional, if he or she is appropriately licensed may also recommend fee-based investment advisory accounts and offer fee-based advice. Fee-based investment advisory accounts

are provided through a number of different types of investment advisory programs. The fee-based investment advisory programs may be managed by Calton, by your Financial Professional and/or a third-party money manager. These programs are commonly called "Wrap Programs" as the investment advisory fees and transaction costs are often bundled or wrapped under one fee-based investment advisory fee. The investment advisory fee is generally a percentage charged on an annual basis based on the dollar amount of assets being managed. Your Financial Professional may also offer fee-based financial planning services. If you select one or more of the fee-based investment advisory programs, Calton will open one or more investment advisory accounts to manage your investments. Opening a fee-based investment advisory account requires the client to sign an Investment Advisory Agreement. The account may be managed by Calton or your Financial Professional with or without discretionary authority, which you grant by signing the Investment Advisory Agreement.

The majority of Calton's Financial Professionals are dually licensed to offer and recommend commission-based brokerage and fee-based investment advisory accounts. As covered in Form CRS, Client Relationship Summary, if your Financial Professional does not hold the appropriate licensing to offer and recommend fee-based investment advisory services and accounts, he or she is required to disclose that to you.

## **Recommendations to Buy, Sell, or Exchange Securities**

Calton and your Financial Professional may make recommendations to you whether to buy, sell, exchange, or hold securities in your account(s). Your Financial Professional does not monitor your commission-based brokerage account(s) unless he or she agrees to do so as described below under the section **Monitoring Your Accounts**.

## **Agency vs. Principal Transactions**

When the Firm and your Financial Professional make recommendations to you to buy, sell, exchange, or hold securities, they may be executed on an agency or principal basis.

When executed on an agency basis, Calton charges and receives a commission for the purchase and sale of securities in your account. Calton pays a percentage of that commission to your Financial Professional. When Calton executes trades on an agency basis, Calton does not own or have some other beneficial interest in the securities being purchased or sold. Agency transactions are generally executed with stocks, Exchange Traded Funds and other general securities transactions. Agency transactions are also referred to as acting as a Broker.

When executed on a principal basis, the Firm buys or sells from its inventory. Calton charges a mark-up from the price it paid for its purchase to you and a mark-down from the price it was sold to you. Calton may hold the securities in its inventory and also have a beneficial ownership interest in the securities. Principal transactions are generally executed with bond and other fixed income securities transactions. Principal transactions are also referred to as acting as a Dealer. As discussed, the Firm and its Financial Professionals may recommend that you buy, sell, exchange, or hold securities. Securities include a broad range of investment options that you may buy, sell, or exchange in your account(s) including, but not limited to, corporate stocks, corporate bonds, U.S. government or government agency bonds, municipal bonds, open-end and closed-end mutual funds, Exchange Traded Funds ("ETFs"), private placement securities, unregistered or alternative investment funds, Unit Investment Trusts ("UITs"), Real Estate Investment Trusts ("REITs"), stock options (including calls and puts), commercial paper, auction rate securities, and stock warrants.

## **Recommendations of Investment Strategies**

Your Financial Professional may recommend to you one or more investment strategies. An investment strategy is the recommendation of one or a series of securities transactions or investments in certain types of securities for the purpose of achieving a specific investment or economic outcome. For example, rather than merely recommending securities that fall within a broad asset class like stocks or bonds, your Financial Professional may recommend to you more specific types of securities, such as high dividend paying companies or securities within a certain market sector. A strategy would also include recommendations to use bond laddering, margin strategy or an options strategy, even if specific securities are not recommended.

A strategy also includes a recommendation to open and maintain a type of account as described earlier in this Brochure. When recommending that you open one or more types of accounts, your Financial Professional may also recommend that you sell certain securities positions held in accounts outside of Calton and/or rollover or transfer the proceeds to one or more Calton accounts opened on your behalf. For example, your Financial Professional may recommend that you sell the assets held in your employer sponsored retirement plan, such as a 401(k) plan and roll over the proceeds into an Individual Retirement Account ("IRA").

## **Bases for Our Recommendations and Limitations on Our Recommendations**

Your Financial Professional may recommend different types of accounts, securities, and investment strategies. Any recommendation will be based upon the information you provide your Financial Professional including information you provide about your personal financial situation on the New Account Form. Calton and its Financial Professionals may only make recommendations that are suitable for you and in your best interest based on your stated financial situation, investment objectives, investment experience, time horizon, risk tolerance and other factors you provide to Calton and your Financial Professional. Therefore, Calton and your Financial Professional may not recommend certain account types, securities and/or strategies to you. For example, if you have a lower risk tolerance or you have a smaller amount of assets to invest, a margin or options account may not be suitable for you based on your financial situation and risk tolerance.

Additionally, the issuers of certain securities may prohibit investors who do not meet certain income, liquid net worth or investment minimums or investment experience from investing in their securities offerings. Most of Calton's Financial Professionals are dually registered to solicit, offer, recommend and sell commission-based securities and fee-based investment advisory services, and are also insurance licensed in various states to solicit, offer and recommend fixed and variable life insurance and annuities. Generally, a Financial Professional must hold a FINRA Series 7 registration to solicit, offer and recommend stocks, bonds and other general securities and a FINRA Series 65 or 66 to solicit, offer and recommend fee-based investment advisory services and advice. Some Financial Professionals hold FINRA a Series 6 registration, which only permits them to solicit, offer and recommend mutual funds and variable insurance products. Your Financial Professional is required to disclose to you if he or she does not have the requisite registrations to make recommendations of certain types of securities to you.

## **Investment Risks**

Calton and its Financial Professionals are obligated to only recommend securities or investments that are suitable for you and must act in your best interest placing your interests ahead of our own. Securities are not guaranteed and are subject to market risk and fluctuations, including the potential loss of the amount



invested. There is no guarantee that you will meet your investment objectives and goals or that a recommended investment strategy will perform as anticipated. Some securities and investment strategies involve more investment risk than others. For example, some of the securities recommended may have a limited market or may be illiquid, which means that you may not be able to sell those securities for months or even years in the future. There are other risks associated with investing in securities. You should carefully read the prospectus or other offering documents for any security which provide more details of the risks, fees and expenses associated with the investment product. If a prospectus or other offering documents or other written disclosures are not available with respect to a particular security, your Financial Professional will explain the investment and its risks to you.

### **Monitoring Your Account(s)**

Your Financial Professional is not obligated to monitor your commission-based brokerage account(s). Monitoring involves periodically reviewing your accounts based on an agreed time period, which could be monthly, quarterly, semi-annually, or annually for one or more of your commission-based brokerage accounts. If your Financial Professional agrees to monitor one or more of your accounts, he or she is required to disclose the terms of such account monitoring services including the scope and frequency of the account monitoring. When monitoring your account(s) your Financial Professional may use and review reports provided by the Firm and/or third party data aggregation providers to assist him or her in analyzing, reviewing, determining and recommending what types of securities you should buy, sell, or exchange in your account(s). Your Financial Professional may also make additional recommendations with respect to a specific investment strategy. For example, he or she may review your commission-based account(s) to determine if your account assets should be reallocated or if adjustments should be made with respect to a specific investment strategy.

If you sign an Investment Advisory Agreement and open a fee-based investment advisory account(s), Calton and your Financial Professional are acting as a fiduciary. When Calton and your Financial Professional acts as fiduciaries, we are required to have a client contact meeting with you no less than annually. Generally your Financial Professional will meet with you more frequently, such as quarterly to review the performance in your fee-based investment advisory accounts with you.

### **Fees and Costs that Apply to Your Transactions, Holdings, and Accounts**

The following describes the commissions, fees and costs that you pay directly or indirectly for commission-based brokerage accounts and services. These fees and costs are paid to Calton and a portion of the commissions, fees and costs are paid to your Financial Professional.

#### **Commissions**

When Calton acts as your agent or as Broker, the Firm charges you a commission to execute a purchase, sale or exchange transaction of a security in your account(s). A commission is a flat dollar amount, e.g. \$50, per trade. The commission charged is deducted from the transaction amount.

Your Financial Professional decides the amount of commission to be charged. The commission is subject to a minimum amount and is generally calculated based on a percentage of the total amount of the transaction, number of shares or bond being bought or sold, share or bond price and market availability of the security. The percentage commission charged varies and may be negotiable between you and your Financial Professional. Your Financial Professional may charge different commissions amounts for

different clients for the same transactions in the same security. You should discuss with your Financial Professional the commissions he or she charges, the basis for the amount charged, and whether such commissions are negotiable.

### **Mark-ups and Mark-downs**

When the Firm acts as principal buying or selling to you for its own account, you will be charged a mark-up for purchases and a mark-down for sales. This means that when Calton sells you a security from its inventory, the Firm will sell the security to you at a price that is higher than the market price of the security. The difference between the sales price and the market price is known as the spread or the mark-up. If Calton buys a security from you and takes that security into its own inventory, the Firm buys the security from you at a price that is lower than the market price. The spread between the purchase price paid to you and the market price is the markdown.

Your Financial Professional and you are responsible for determining the price at which to sell a security or buy a security. The spread may vary depending on type of security. Your Financial Professional may quote a different selling or buying price for different clients for the same transactions. You should discuss with your Financial Professional the price quoted and whether the price is negotiable.

### **Mutual Fund Compensation**

When you purchase mutual fund shares in a commission-based brokerage account or direct from the mutual fund product sponsor, you generally pay a sales charge or load, which is a percentage of the amount purchased. Mutual funds have different share classes that are priced differently and the sales charge varies depending on the security and mutual fund sponsor. The sales charge commission percentage for load funds is set by the mutual fund company and disclosed in the prospectus. There are sales charge discounts known as breakpoints that you may be eligible for depending on the amount invested. Calton and its Financial Professionals cannot change the sales charge commission percentage, as the sales charge percentage is set by the mutual fund company. The amount of your investment in a mutual fund is equal to the difference between the value per share of the mutual fund called the Net Asset Value or "NAV" and the total sales charge.

A sales load that you pay when you purchase fund shares is called a "front-end load." A sales load that you pay when you sell your mutual fund shares is a "back-end load," which is also called a "Contingent Deferred Sales Charge" or "CDSC." The mutual fund company often reduces or eliminates the back-end load/CDSC over a certain time period, such as 2 years.

When you sell a load mutual fund in a commission-based brokerage account where you have already paid an upfront load when you purchased the mutual fund, a commission is charged for executing the sale to cover Calton's execution, and clearing costs. The commission is generally \$25 - \$50.

No load or load waived mutual funds do not charge an upfront sales charge. A commission is charged to purchase and sell no load and load waived funds in commission-based accounts to cover Calton's execution and clearing costs. The commission charged generally between \$25 - \$50. Investors can purchase no load mutual funds directly from the product sponsor and pay no commission charge.

### **12b-1 Marketing and Distribution Fees**

Many mutual funds that your Financial Professional solicits, offers and recommends to you charge marketing and distribution fees called 12b-1 fees. Not all mutual funds charge 12b-1 fees and some mutual funds charge 12b-1 fees only if you purchase certain share classes. The amount of 12b-1 fees

charged varies by mutual fund and/or mutual fund family. 12b-1 fees are paid to Calton from the mutual fund company for distributing the mutual fund's shares and may be in addition to any sales loads. The 12b-1 fees are not paid from your account(s), but are charged by the mutual fund and reduce the mutual fund's return.

As discussed, the fees and costs connected to your purchase and sale of mutual fund shares vary by mutual fund and fund share class. You may not be eligible to purchase all share classes. For example, some share classes are only available to institutional investors or certain employer sponsored retirement plans. You can learn more about the fees and expenses by reviewing the mutual funds' prospectuses, which your Financial Professional can make available to you. Please review the prospectus carefully prior to investing or sending money.

### **Other Fees and Charges**

Calton charges you a number of fees and charges to service your account(s). These fees and charges compensate the Firm for servicing and maintaining your accounts, performing certain transactions involving your account(s), reporting requests, and other services. These fees and charges are deducted directly from your account(s). Common fees and expenses, include but are not limited to the following:

1. Ticket transaction charges;
2. clearing charges;
3. account maintenance fees;
4. confirmation fees;
5. mail and handling fees;
6. annual IRA custodian fees; and
7. account termination fees.

The clearing firm pays a portion of the above fees and charges to Calton. Ask your Financial Professional for a complete schedule of fees and charges.

### **Compensation to Your Financial Professional**

Calton pays a percentage of the commissions it receives from transactions executed in your account(s) to your Financial Professional. The compensation to your Financial Professional includes brokerage commissions, mutual fund sales charges and loads, contingent deferred sales charges, 12b-1 fees and if you open a fee-based investment advisory account(s), investment advisory fees for managing your account(s). Additional compensation may be received from the sale of fixed insurance products.

### **Conflicts of Interest**

When Calton and your Financial Professional make recommendations to you, we must act in your best interest placing your interest ahead of ours. However, there are certain conflicts of interest that are inherent when offering various investment products. According to the SEC, a conflict of interest is an interest that might influence the Firm or your Financial Professional to consciously or unconsciously make a recommendation to you that is not disinterested. In order to comply with SEC's Regulation Best Interest, Calton and your Financial Professional are required to disclose material conflicts of interest. The Firm and your Financial Professional follow procedures to disclose and address these conflicts, as

required by Regulation Best Interest. The SEC and FINRA also require that Calton take other actions to address conflicts of interest, including that transactions executed in your accounts receive the best execution with respect to the price.

### **Cash and Non-Cash Compensation from Product Sponsors**

Calton generally has a national sales conference each year attended by its Financial Professionals registered with the Firm. The conferences are an opportunity for Calton's Financial Professionals to receive education and training and learn about investment products and services, market performance, economic trends, and other issues important pertaining to their business activities. Product vendors pay sponsorship fees to attend Calton's national sales conference. The payment of the product sponsor fees helps Calton pay for the conference. Vendor sponsors receive greater access to Calton's Financial Professionals than non-conference product sponsors. These fees are considered to be cash compensation to Calton. Financial Professionals also are invited throughout the year to attend education and training meetings held by product sponsors to learn about their new products and services. The education and training meetings are considered to be non-cash compensation, as the sponsors do not pay the Financial Professional directly, but cover all costs including travel, lodging and meals for the meeting. Financial Professionals also receive marketing reimbursements from product sponsors for certain activities and expenses, including for marketing their seminars, seminar invitations and to help defray the cost of their proprietary platforms. The payment of cash and non-cash compensation to Calton and its Financial Professionals by product sponsors is governed by FINRA rules and cannot be based on achieving a sales target or sales quotas. However, the payment of cash and non-cash compensation represents a conflict of interest, as Calton and its Financial Professionals may solicit, offer and recommend certain products from vendors that provide the cash and non-cash compensation over other vendors that do not provide the cash and non-cash compensation.

### **Outside Business Activities**

Most of Calton's Financial Professionals are also licensed in the states in which they conduct business to solicit, offer and recommend fixed life insurance and annuity products and are paid commissions directly by some insurance companies for the sale of those fixed insurance products.

Certain Financial Professionals may have other outside business activities and offer other services, such as tax preparation, accounting, legal, real estate, employee benefits consulting or other businesses where they receive compensation outside of their activities and registration with Calton. When engaging in these outside business activities, the Financial Professionals do so independently of their registration with Calton and are compensated directly for their services.

### **Additional Information**

Additional information about Calton can be found on our website at [www.calton.com](http://www.calton.com). You may also find out more about Calton and its Financial Professionals, including disciplinary histories on FINRA's [BrokerCheck](http://BrokerCheck) or at <https://www.finra.org>.