ANCHOR FINANCIAL GROUP

Firm Brochure
Investment Management and Financial Planning

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Anchor Financial Group (AFG). If you have any questions about the contents of this brochure, please contact us at: 714-835-7703, or by email at invest@anchorfg.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an Advisor provide you with information about which you would use for determining whether to hire or retain an Advisor

January 14, 2019

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative "plain English" format. The new final rule specifies mandatory sections and organization.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at 714-835-7703 or by email at invest@anchorfg.com.

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Advisory Business

Firm Description

AFG was founded in 1988. AFG provides personalized confidential financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

AFG receives fees only for investment products, and some commissions for insurance products. AFG also receives fees for financial planning services. AFG directly compensates for client referrals by paying 50% of all advisory fees to solicitors, though this pertains to a very small number of AFG's clients.

Investment advice is an integral part of financial planning. In addition, AFG advises clients regarding cash flow, college planning, retirement planning, tax planning and estate planning.

Investment advice is provided, with the client making the final decision on investment selection. AFG does not act as a custodian of client assets, but in many cases, hires a third party to take custody of assets for the benefit of the client. The client always maintains asset control. AFG places trades for clients under a limited power of attorney.

Periodic financial planning and investment advisory reviews are communicated to client to determine if changes are warranted. More frequent reviews of investment holdings occur but are not necessarily communicated to the client unless immediate changes are recommended.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by the client on an as-needed basis. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

Principal Owners

Stephen P. Kiernan is the 100% stockholder.

Types of Advisory Services

AFG provides investment supervisory services, also known as asset management services; manages investment advisory accounts not involving investment supervisory services; and furnishes investment advice through consultations.

On more than an occasional basis, AFG furnishes advice to clients on matters not involving securities, such as financial planning matters.

As of January, 2019, AFG manages $52.2 million in assets for 299 accounts. All of this is managed on a discretionary basis, subject to restrictions.

Tailored Relationships

The goals and objectives for each client are documented and discussed prior to implementation of investments, and updated at least annually. Clients may impose restrictions on investing in certain securities or types of securities.

Agreements may not be assigned without client consent.

Types of Agreements

The following agreements define the typical client relationships: Investment Management Agreement, Financial Planning Agreement.

Financial Planning Agreement

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations may be included as part of a financial plan. Implementation of the recommendations is at the discretion of the client. Clients are under no obligation to implement any investment or insurance transaction through entities that principals and employees of AFG are associated with and may benefit from.

After delivery of a financial plan, future face-to-face meetings may be scheduled as necessary.

Investment Management Agreement

Most clients choose to have AFG manage their assets in order to obtain ongoing in-depth advice and life planning. All aspects of the client’s financial affairs are reviewed. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented on an ongoing basis.

The scope of work and fee for an Investment Management Agreement is provided to the client in writing prior to the start of the relationship. An

Investment Management includes investment management only and excludes financial planning services such as education planning; retirement planning; estate planning; as well as the implementation of recommendations within each area.

Although the Investment Management Agreement is an ongoing agreement and constant adjustments are required, the length of service to the client is at the client's discretion. The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the month completed. The portfolio value at the completion of the full billing month is used as the basis for the fee computation, adjusted for the number of days during the billing month prior to termination.

Hourly Planning Engagements

AFG provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for limited scope engagements is $250.

Fees and Compensation

Description

The annual Investment Management Agreement fee is based on a percentage of the investable assets according to the following schedule:

1.25% on the first $500,000;

1.00% on the assets between $500,000 and $5 million;

0.9% on assets above $5 million

Current client relationships may exist where the fees are higher or lower than the fee schedule above.

Financial plans are priced according to the degree of complexity associated with the client's situation. The fee for a financial plan is predicated upon the facts known at the start of the engagement. The fee range is $1,000 to $3,500 and is negotiable. Since financial planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments.

In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

Fees are negotiable. In accordance with CCR Section 260.238(j), it should be noted than lower fees for comparable services may be available from other sources.

Fee Billing

Investment management fees are billed monthly in arrears, meaning that you are charged after the month has ended. TCA will be hired by client(s) to custody assets and will calculate these advisory fees and prepare fee statements. Charges are removed your account by the custodian and send to AFG. The client must consent in advance to direct debiting of their investment account.

Fees for financial plans are billed 50% in advance, with the balance due upon delivery of the financial plan.

Other Fees

Custodians charge additional fees for their services. These fees pay for them to custody client assets, perform administrative duties such as wiring money, generate quarterly reports, report to the IRS on retirement accounts, etc.

Expense Ratios

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

Performance figures quoted by mutual fund companies in various publications are <u>after</u> their fees have been deducted.

Past Due Accounts and Termination of Agreement

AFG reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in AFG's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days. Investment management engagements will continue in effect until terminated by either party upon 30 days written notice to the other. Clients may terminate any Agreement within five business days of its effective date and receive a full refund.

Performance-Based Fees

Sharing of Capital Gains

Fees are <u>not</u> based on a share of the capital gains or capital appreciation of managed securities.

AFG does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

Types of Clients

Description

AFG generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, or small businesses.

Client relationships vary in scope and length of service.

Account Minimums

The minimum account size is $250,000 for assets under management.

AFG has the discretion to waive the account minimum. Other exceptions will apply to employees of AFG and their relatives, or relatives of existing clients.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Security analysis methods include primarily fundamental analysis. Technical and cyclical analysis may also be used.

The main sources of information include financial publications. Other sources of information that AFG may use include Morningstar mutual fund information, and various financial software.

Investment Strategies

The primary investment strategy used on client accounts is strategic asset allocation. We use passively-managed index and exchange-traded funds, actively-managed funds where there are greater opportunities to make a difference, and alternative investments such as non-publically traded real estate investment trust (REITs), business development companies (BDCs), interval funds and commodity funds (gold, silver, natural gas, etc.) Portfolios are globally diversified to control the risk associated with traditional markets.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client completes questionnaire(s) that documents their objectives and risk tolerance.

Risk of Loss

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

- Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- Market Risk: The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Disciplinary Information

Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment clients. Neither AFG nor any management person has been convicted of or pled guilty or nolo contendere to any felony.

Other Financial Industry Activities and Affiliations

Financial Industry Activities

Affiliations

AFG has arrangements that are material to its advisory business or its clients with the Trust Company of America (TCA) located in Englewood, Colorado. TCA custodies client's assets/funds, and AFG executes trades in same accounts by communicating trades to TCA.

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

Code of Ethics

The employees of AFG have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

AFG and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions, rules and laws of all entities that regulate AFG.

Brokerage Practices

Selecting Brokerage or Custodial Firms

AFG does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. AFG recommends custodians based on the proven integrity and financial responsibility of the firm.

Best Execution

AFG does not review the execution of trades at each custodian since no trading fees are charged.

Soft Dollars

AFG does not receive soft dollar monies from any source.

Order Aggregation

Most trades are mutual funds or exchange-traded funds, and are grouped together by the custodian to purchase funds without paying commissions.

Review of Accounts

Periodic Reviews

Account reviews are semi-annually by Stephen Kiernan, President and/or Joe Richard, Portfolio Manager. Account reviews are performed more frequently when market conditions or client wishes dictate.

Review Triggers

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

Regular Reports

Account reviewers are members of the firm's Investment Committee. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

Investment Management clients receive quarterly statements from the custodian.

Client Referrals and Other Compensation

Incoming Referrals

AFG receives referrals from many sources, including other investment advisors. AFG pays advisors 50% of the investment management fees charged. Prior to payment for referrals AFG will determine that the solicitor is either registered as an investment adviser, or reported as an investment adviser representative of this investment adviser.

Referrals Out

AFG does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Other Compensation

AFG is not compensated in any way other than those already mentioned.

Custody

SEC "Custody"

AFG does not take custody of any client's accounts.

Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record quarterly – or electronically if client has chosen.

Investment Discretion

Discretionary Authority for Trading

AFG accepts discretionary authority to manage securities accounts on behalf of clients. AFG has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, AFG cannot materially change the overall risk level in the account as determined by the investment management agreement and risk profile without discussing this with the client.

The client approves the custodian to be used and the commission rates paid to the custodian. AFG does not receive any portion of the transaction fees or commissions paid by the client to the custodian.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute the trades on your behalf.

Voting Client Securities

Proxy Votes

Unless the client designates otherwise, AFG votes proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy. A copy of AFG's proxy voting policy is available upon request.

Financial Information

Financial Condition

AFG does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because AFG does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than $500 per client, and six months or more in advance.

California Department of Business Oversight (DBO): AFG has discretionary authority over client funds and therefore is required by the DBO to maintain at all times a minimum net worth of $10,000.

Requirements for State-Registered Advisers

Required disclosures

All information and disclosures pertaining to principal executive offers and management persons, other business activities, performance-based fees, any involvement in arbitration and other legal proceedings, and any relationship with issuers of securities has either been disclosed elsewhere in this brochure, including Part 2B Supplemental Brochure, or there is nothing to disclose.

Business Continuity & Succession Planning

General

AFG has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

Backup and Recovery of Books and Records

AFG's books and records are in electronic form and stored on the cloud. Therefore, if the physical location of AFG's business was destroyed, these records would remain intact.

Alternative Method of Communication

AFG's personnel have laptop computers and cell phones which can be operated from any location to continue communicating with clients in the event of a disaster. Important information, including client contact information, is stored on the cloud.

Office Relocation and Disruptions to the Principal Place of Business

AFG's personnel could operate out of their homes if AFG's place of business was uninhabitable for a long period of time. AFG's phone service is a VOIP system which can be operated via cell phones from any location.

(Unexpected) Succession Planning and Transitioning Responsibilities of Key Personnel

If Joe Richard unexpectedly died or was suddenly disabled, Steve Kiernan has policies and procedures to explain Joe's duties. Steve could perform these duties until he hires someone else to replace Joe.

If Steve Kiernan unexpectedly died or was suddenly disabled, Joe Richard would continue to perform all the day-to-day trading and client communication services that he already provides. Eventually he should probably replace Steve Kiernan's financial planning duties – most likely by hiring a financial planner. However, this is not necessary for the money-management services of AFG to continue. Steve's estate planning documents stipulate that Steve's heirs sell the business to Joe at a reasonable price.

If Joe and Steve both die unexpectedly or were suddenly disabled, all clients can access their investments directly with the custodians and mutual fund companies that hold them. Currently, AFG has no plans to transition the business to a third-party investment manager or financial advisor if such an event occurred.

Information Security Program

Information Security

AFG maintains an information security program to reduce the risk that your personal and confidential information may be breached.

Privacy Notice

AFG is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

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

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have given us permission to share with. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

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

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

Brochure Supplement (Part 2B of Form ADV)

Stephen Kiernan, CFP™

Educational Background:

- Date of birth: 1/26/1964
- California State University, Fullerton, CA BA – Business Administration 1987.
- College for Financial Planning, Denver, CO CFP Professional Education Program 1989

Business Experience:

- CEO, President Anchor Financial Group 10/1988 - Present

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None

Joseph Richard

Educational Background:

- Date of birth: 2/9/1974
- California State University, Fullerton, CA BA – Business Administration 2002

Business Experience:

- Vice President, Anchor Financial Group 10/2005 - Present

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision:

Joseph Richard is supervised by Stephen Kiernan, President of Anchor Financial Group.

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None

Education and Business Standards

AFG requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of money management and/or financial planning and insurance, depending on what role the advisor is serving. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

Professional Certifications

The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP Board”).

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;

- Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances;

- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and

- Ethics – Agree to be bound by CFP Board's *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the *Code of Ethics* and other parts of the *Standards of Professional Conduct*, to maintain competence and keep up with developments in the financial planning field; and

- Ethics – Renew an agreement to be bound by the *Standards of Professional Conduct*. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board's enforcement process, which could result in suspension or permanent revocation of their CFP® certification.