

March 24, 2025

FORM ADV PART 2A (“FIRM BROCHURE”)  
FOR PARAGON FINANCIAL ADVISORS

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## Item 1 – Cover Page

# Paragon Financial Advisors

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[paragon-adv.com](http://paragon-adv.com)

**This brochure provides information about the qualifications and business practices of Paragon Financial Advisors. If you have any questions about the contents of this brochure, please contact us at (979) 693-3907 and/or [msmith@paragon-adv.com](mailto:msmith@paragon-adv.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.**

**Additional information about Paragon Financial Advisors also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm’s CRD number is 143721.**

## Item 2 – Material Changes

The purpose of this page is to inform you of any material changes since the last annual update to this brochure. If you are receiving this brochure for the first time, this section may not be relevant to you.

Paragon Financial Advisors reviews and updates our brochure at least annually to make sure that it remains current. We have made the following material changes since the last update to this brochure, dated May 28, 2024:

We have also made additional editorial and non-material changes throughout this Brochure since the last annual filing.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting David W. Hailey, Chief Compliance Officer, at (979) 693-3907 or [dhailey@paragon-adv.com](mailto:dhailey@paragon-adv.com).

Additional information about Paragon Financial Advisors is also available via the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with Paragon Financial Advisors who are registered, or are required to be registered, as investment adviser representatives of Paragon Financial Advisors.

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## Item 4 – Advisory Business

### About Paragon Financial Advisors

Paragon Advisors, LLC is a limited liability corporation formed in 2007 in the state of Texas. In 2011, Paragon Advisors, LLC began doing business as Paragon Financial Advisors. The member owners of the firm are David W. Hailey, Robert C. Calhoun, and Stephen R. McGee. As managing members of the firm Mr. Hailey and Mr. Calhoun are tasked with major decisions for the firm that relate to strategic and administrative matters.

This narrative brochure provides clients with information regarding Paragon Financial Advisors (Paragon) and the qualifications, business practices, and nature of advisory services that should be considered before becoming an advisory client of Paragon.

Prior to engaging Paragon to provide services, clients are generally required to enter into an agreement with Paragon and set the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee due from the client prior to Paragon beginning services. If requested by the client, Paragon may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any recommended professional. The client retains absolute discretion over all implementation decisions and may accept or reject any recommendation from Paragon.

### Financial Planning and Consulting Services

Paragon engages in broad-based financial planning services for its clients, but we do not typically provide a formal written financial plan. Any advice is generally presented in a recap memo, retirement projection report, or some combination as agreed to with the client. Paragon’s advice will typically provide a variety of services, principally advisory, to clients regarding the management of their financial resources based upon analysis of their individual needs. The process typically begins with an initial complimentary consultation. During or after the initial consultation, if the client decides to engage Paragon for financial planning services, pertinent information about the client’s personal and financial circumstances and objectives is collected. Clients may also be required to complete investment-related questionnaires and/or risk tolerance assessments as part of the information-gathering process. As needed, Paragon will conduct follow-up interviews for the purpose of reviewing and/or collecting financial data. Once such information has been studied and analyzed, a financial plan – designed to achieve the client’s expressed financial goals and objectives – will be produced and presented to the client.

To the extent requested by the client, financial planning advice may be rendered and/or limited to areas of business planning, retirement planning, financial planning, personal tax cash flow planning, estate planning, risk management, divorce planning, college planning, and compensation and benefits planning, among others.<sup>1</sup>

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<sup>1</sup> Please note that we do not offer tax advice. To determine your individual tax situation and specific needs, please consult a professional tax advisor.

Financial planning is based on the client’s financial situation at the time the information is presented and is based on financial information disclosed by the client to Paragon. Clients are advised that certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance in no way indicates future performance. Paragon cannot offer any guarantees or promises that the client’s financial goals and objectives will be met. As the client’s financial situation, goals, objectives, or needs change, the client must notify Paragon promptly.

### **Portfolio Management Services**

Paragon provides discretionary asset management and investment supervisory services. Subject to any written guidelines that the client may provide, Paragon will be granted discretion and authority to manage the investments. Accordingly, Paragon is authorized to perform various functions, at the client’s expense, without further approval from the client. Such functions include making all investment decisions on the (a) securities purchased/sold; (b) the amount of securities to be purchased/sold; (c) selection of the broker or dealer to execute the transaction(s), and (d) the commission rates to be paid. Once the portfolio is constructed, Paragon provides ongoing supervision and re-balancing of the portfolio as changes in market conditions and client circumstances may require.

After consultation with Paragon, clients may impose reasonable restrictions on investing in certain securities or types of securities. Other restrictions may be imposed by clients with respect to the (average or longest) maturity or credit quality of fixed income investments. In either case, all restrictions must be in writing.

### **Retirement Rollovers-No Obligation/Conflict of Interest**

A client leaving an employer typically has four options (and may engage in a combination of these options): 1) leave the money in his/her former employer’s plan, if permitted, 2) roll over the assets to his/her new employer’s plan, if one is available and rollovers are permitted, 3) rollover to an Individual Retirement Account (IRA), or 4) cash out the account value (which could, depending upon the client’s age, result in adverse tax consequences).

Paragon may recommend an investor roll over plan assets to an IRA managed by Paragon. As a result, Paragon will typically earn an asset-based fee; however, a recommendation that a client or prospective client leave their plan assets with their old employer will result in no compensation. Therefore, Paragon has an economic incentive to encourage an investor to roll plan assets into an IRA that Paragon will manage.

There are various factors that Paragon may consider before recommending a rollover, including but not limited to: i) the investment options available in the plan versus the investment options available in an IRA, ii) fees and expenses in the plan versus the fees and expenses in an IRA, iii) the services and responsiveness of the plan’s investment professionals versus those of Paragon, iv) required minimum distributions and age considerations, and vi) employer stock tax consequences, if any. No client is under any obligation to roll over plan assets to an IRA managed by Paragon.

### **401(k) and other Qualified Retirement Plans**

We also provide investment advisory services for business owners and trustees of 401(k) plans who want the expertise and experience of an investment advisor who can complete sound due diligence on fund selection, create a menu of options and risk adjusted allocation models with our goal to ensure peace of mind and reduce fiduciary liability.

### **Retirement Accounts and ERISA**

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interests ahead of yours.

Under this special rule’s provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

### **Selection of Other Advisers (Managed Assets Program)**

As part of its advisory services, Paragon can offer its clients access to a network of third-party investment advisers (“sub-advisers”) to manage a portion of or their entire portfolio. Typically, these managers advise private funds or other alternative assets and therefore may have financial qualification thresholds for investment. All sub-advisers to whom Paragon refers its clients must be a registered investment adviser with the Securities and Exchange Commission or other appropriate jurisdiction.

After gathering information about a client’s financial situation and investment objectives, a representative of Paragon may assist the client in selecting a particular third-party adviser and/or program. In addition to evaluating and recommending sub-advisers to clients, Paragon will review reports provided to the client by sub-advisers. Paragon also will contact the client periodically to review the client’s financial situation and objectives, communicate information to the sub-adviser as warranted, and assist the client in understanding and evaluating the services

provided by the sub-adviser. Clients are reminded to promptly notify Paragon of any material change in their financial situation, investment objectives, or account restrictions.

At the time of the referral, Paragon or the sub-adviser(s) will deliver the sub-adviser’s full disclosure that includes detailed information on the services offered and other pertinent disclosures by delivery of a copy of the relevant sub-adviser’s Part 2 of Form ADV or equivalent disclosure documents. In addition, if the investment program recommended to a client is a wrap fee program, the client will also receive from Paragon or the sub-adviser(s) the equivalent wrap fee brochure provided by the sponsor of the program. Paragon will provide each client with all appropriate disclosure statements, including disclosure of fees paid to Paragon, its representatives, and the sub-advisers.

### **Trade Error Policy**

Should they occur, losses resulting from Paragon’s trade errors shall be reimbursed by either Paragon or the custodian depending on the dollar amount. Any gains will be donated to a charity.

### **Client Obligations**

In performing its services, Paragon is not required to verify any information received from the client or from the client’s other professionals. If a client engages a recommended professional, and a dispute arises thereafter relative to the engagement, the client agrees to seek recourse exclusively from and against the engaged professional. It remains the client’s responsibility to promptly notify Paragon if the client’s financial situation or investment objectives change for the purpose of reviewing/evaluation/revising Paragon’s previous recommendations and/or services.

### **Disclosure Statement**

A copy of Paragon’s written brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or at the same time as, the execution of the any client agreement.

### **Non-Participation in Wrap Fee Programs**

Paragon, as a matter of policy and practice, does not sponsor any wrap fee programs. A wrap fee program is defined as any advisory program under which a specified fee or fees not based directly upon transactions in a client’s account is charged for investment supervisory services (these may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions.

### **Amount of Assets Under Management**

As of December 31, 2024, Paragon provided advice on approximately \$846 million in assets, all managed on a discretionary basis, and \$1,035,690 in assets, managed on a non-discretionary basis.

### **Our Policy on Class Action Lawsuits**

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. Paragon has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. It also has no duty to evaluate a client’s eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict.

Furthermore, Paragon has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where Paragon receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials, to the client. Electronic mail is acceptable where appropriate if the client has authorized contact in this manner.

## Item 5 – Fees and Compensation

### Investment Supervisory Management

The annual fee for portfolio management services is billed quarterly in arrears and based on the market value of client assets on the last day of the quarter. Fees will be assessed pro rata in the event the portfolio management agreement is executed at any time other than the first day of a calendar quarter. On an annualized basis, Paragon’s standard fees for ongoing investment services are based on the following schedules:

<u>Portfolio Size</u>	<u>Annualized Fee</u>
First \$2,000,000	1.20%
\$2,000,001 to \$5,000,000	1.00%
\$5,000,001 to \$10,000,000	0.75%
Over \$10,000,001	0.50%

A minimum of \$1,000,000 of assets under Paragon’s management is required for our services. Paragon may group certain related client accounts for the purpose of attaining the minimum Assets Under Management (AUM) and determining the annualized fee. Paragon imposes a minimum \$12,000 annual fee or \$3,000 per quarter on portfolios with investable assets valued under \$1,000,000. Paragon reserves the right to lower or remove this minimum at its discretion.

The annual fee for investment management services provided are based upon a percentage (%) of the market value of the Assets under management in accordance with the fee schedule in the Agreement signed by the client. Paragon considers cash to be an asset class and part of Assets under management and subject to the same fee calculation as the client’s non-cash investments. Please note that we calculate our fees through our portfolio accounting system, Orion, which has a feed from the custodian. However, the quarter end balance determined by Orion, and which we calculate our fees, could be different from your balance on your custodial statement due to timing of corporate actions, accrued interest, and trade settlements.

Payment for investment management fee(s) will be made by the qualified custodian holding the client’s funds and securities provided the client provides written authorization permitting the fee(s) to be paid directly from the client’s account(s). Paragon will not have access to client funds for payment of fee(s) without client consent in writing. Further, the qualified custodian agrees to deliver a monthly or quarterly account statement directly to the client showing all disbursements from the account. The client is encouraged to review their account statements for accuracy. Paragon will have access to a duplicate copy of the statement that was delivered to the client. Alternatively, Paragon may invoice clients directly for portfolio management fee(s). When clients are billed directly, payment is due upon receipt of Paragon’s invoice.

We provide an additional service for accounts not directly held by our primary custodian, but where we do have discretion, and may leverage a third-party platform to facilitate management of held away assets such as defined contribution plan participant accounts, with discretion. These are primarily 401(k) accounts, HSAs, and other assets which our primary custodian will not custody. The platform allows us to avoid being considered to have custody of Client funds since

we do not have direct access to Client log-in credentials to affect trades. We are not affiliated with the platform in any way and receive no compensation from them for using their platform. We regularly review the available investment options in these accounts, monitor them, and rebalance and implement our strategies in the same way we do other accounts, though using different tools as necessary.

The fee for these directly-managed held-away accounts is determined by the account value at the end of the quarter. The advisory fee is calculated by assessing the percentage rates using the predefined levels of assets of the service the client utilizes. As it is impossible to directly debit the fees from these accounts, those fees will be assigned to the client’s taxable accounts on a pro-rata basis. If the client does not have a taxable account, those fees will be billed directly to the client. Accounts initiated or terminated during a calendar quarter will be charged a pro-rated fee based on the amount of time remaining in the billing period. Since fees are paid in arrears, no rebate will be needed upon termination of the account.

**Limited Negotiability of Advisory Fees:** Although Paragon has the aforementioned customary fee schedule, we retain the discretion to negotiate alternative fees on a client-by-client basis. The client's circumstances and needs will be considered in determining the negotiated fee schedule. Paragon reserves the option to charge a separate fee for financial planning in addition to the investment management fee for relationships under \$1,000,000 in AUM. The specific annual fee schedule will be agreed upon between Paragon and the client.

Discounts, not generally available to our advisory clients, may be offered to family members and associated relatives of employed persons of Paragon.

### **Financial Planning**

Paragon will provide financial planning to clients who request it. For these clients our financial planning services will be considered as part of our normal management fee for investment services. However, for clients less than \$1,000,000 Paragon reserves the right to add a separate fee for these services as agreed upon by Paragon and the client.

### **General Information Regarding Advisory Services and Fees**

Paragon does not represent, warrant, or imply that the services or methods of analysis used by Paragon can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections.

Advice offered by Paragon may involve investments in mutual funds. All fees paid to Paragon for investment supervisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders, as described in each fund’s prospectus. These fees will generally include a management fee and other fund expenses. Further, transaction charges may be applicable when purchasing and selling securities. Paragon does not share in any portion of the brokerage fees and/or transaction charges imposed by the broker-dealer/custodian holding the client funds or securities. Clients should review all fees charged by mutual funds, Paragon, and others to fully understand the total amount of fees to be paid by the client.

Similarly, advice offered by Paragon may involve investments in private funds. All fees paid to Paragon for investment supervisory services are separate and distinct from the fees and expenses charged by the fund(s) to their investors, as described in each fund’s offering documents. These fees will generally include a management fee and some type of performance fee (e.g., carried interest for private equity funds). Paragon does not share in any portion of the management or performance fee charged by a fund. Clients should carefully review all fees charged by a particular fund as described in their offering documents (see also Private Fund Fees below).

Clients may also incur “account termination fees” upon the transfer of an account from one brokerage firm (broker-dealer/custodian) to another. The range for these account termination fees is believed to range generally from \$0 to \$500 at present, but at times may be much higher. Clients should contact their custodians (brokerage firms, bank, or trust company, etc.) to determine the amount of account termination fees that may be charged and deducted from their accounts for any existing accounts which may be transferred.

Such charges, fees and commissions are exclusive of and in addition to Paragon’s fee, and Paragon does not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that the firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

The vast majority of our clients pay Paragon’s fees based upon a percentage of the assets upon which we advise. We believe this common form of compensation for registered investment supervisory firms avoids the multiple inherent conflicts of interest associated with commission-based compensation. (Paragon does not accept commission-based compensation of any nature, nor does Paragon accept 12b-1 fees.)

Asset-advised-upon percentage method of compensation can still at times lead to conflicts of interest between Paragon and the client as to the advice provided. For example, conflicts of interest may arise relating to the following financial decisions in life: incur or pay down debt; gift funds to charities or to individuals; purchases of a (larger) home or cars or other non-investment assets; the purchase of a lifetime immediate annuity; expenditures of funds for travel or other activities; investment in private equity investments (private real estate ventures, closely held businesses, etc.), and the amount of funds to place in non-managed cash reserve accounts. We have adopted internal policies to properly manage these and other potential conflicts of interest. Our goal is that our advice to you remains at all times in your best interest.

Private Funds Fees: When Paragon recommends or invests client assets into Private Funds, we charge a management fee based on a percentage of the invested capital or the most current valuation available. This fee is billed quarterly, as described above. In most cases, we calculate the fee using the valuation reported in the most recent statement at the end of each billing period.

Due to the illiquid nature of Private Funds, valuation updates can sometimes lag by a calendar quarter or more. Paragon monitors these valuations, and we apply any material adjustments at least annually to help ensure fees reflect the most accurate information available.

**Grandfathering of Minimum Account Requirements**

Pre-existing advisory clients are subject to Paragon’s minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm’s minimum account requirements will differ among clients.

**Legacy Fee Schedules**

Some clients with Paragon may be on legacy fee schedules.

**Termination**

The client may terminate any new agreement without penalty by providing written notice of such cancellation to Paragon within five (5) business days of the date of signing the agreement. Following the five-day cancellation period, the first periods’ fee is not refundable due to the large volume of initial work to be undertaken by Paragon. Thereafter, either party may terminate the agreement without penalty upon notice in writing to the other party. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, with the refund calculations based pro rata to the date of termination. Upon the termination of the agreement, Paragon will not possess any obligation to recommend or take any action with regard to the securities, cash, or other investments in a client’s account.

The agreement for Portfolio Management will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*.

Paragon believes that the charges and fees offered within its program are competitive with alternative programs available through other firms offering a similar range of services; however, lower fees for comparable services may be available from other sources. A client could invest in mutual funds directly, without the services of Paragon. In that case, the client would not receive the services provided by Paragon which are designed, among other things, to assist the client in determining which investments are most appropriate to each client’s financial condition and objectives, undertake a disciplined approach to portfolio rebalancing while taking into account the tax ramifications of same, and to avoid ad hoc emotional reactions to shorter-term market events. Also, some of the funds used by the firm may not be available to the client directly without the use of an investment adviser granted access to such funds.

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

Item 6 is not applicable to Paragon. Paragon does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). Such acceptance or management would pose a significant conflict of interest to our clients because performance-based fees may provide an incentive to favor such accounts over the accounts of clients under our other advisory programs. Paragon considers avoidance of such conflict a paramount policy in maintaining our fiduciary duty to our clients.

## Item 7 – Types of Clients

Paragon Financial Advisors offers personalized investment supervisory services to individuals, high net worth individuals, pensions, profit-sharing plans, trusts, estates, charitable organizations, corporations, and business entities. Client relationships vary in scope and length of service.

### Required Minimum Client Accounts

As described in Item 4, a minimum of \$1,000,000 of assets under Paragon’s management is required for our services. Paragon may group certain related client accounts for the purpose of attaining the minimum Assets Under Management (AUM) and determining the annualized fee. Paragon imposes a minimum \$12,000 annual fee or \$3,000 per quarter on portfolios with investable assets valued under \$1,000,000. Paragon reserves the right to lower or remove this minimum at its discretion. Paragon reserves the option to charge a separate fee for financial planning in addition to the investment management fee for relationships under \$1,000,000 in AUM.

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

Before designing investment plans for clients, Paragon will evaluate the client’s investments to determine whether the client’s assets harmonize with the client’s financial objectives. In designing investment plans for clients, Paragon relies upon the information supplied by the client and other advisors of the client. Such information may pertain to the client’s financial situation, estate planning, tax planning, risk management, short-term and long-term lifetime financial goals and objectives, investment time horizon, and perceived current tolerance for risk. Paragon will design and propose a portfolio to help clients attain their financial goals.

This information will become the basis for the strategic asset allocation plan which Paragon believes will best meet the client’s stated long-term personal financial goals. The strategic asset allocation provides for investments in those asset classes that Paragon believes (based on historical data and Paragon’s analysis) will possess attractive combinations of return, risk, and correlation over the long term.

When Paragon invests client assets, asset allocation techniques are used which may include mutual funds and exchanged traded funds (ETFs) that invest in stocks and bonds of varying characteristics and from both the United States and foreign markets. Paragon invests with a long term approach and expects that not all investments in a given portfolio will perform in unison with other assets in the same portfolio. Paragon does systematically re-balance the portfolio on a regular basis and monitors each portfolio’s asset allocation to make adjustments where appropriate. However, Paragon may exclude specific assets from the systematic re-balance because of a client’s specific circumstances. Therefore, Paragon’s portfolio management decisions may or may not be made considering only the assets being managed and not with regards to other investments the client may hold.

Paragon utilizes Interval, Tender Offer, or Limited Partnership (e.g., venture capital, real estate, etc.) funds. It is important to understand that these types of funds have limited liquidity. For Interval funds, the opportunity to trade is limited to quarterly per SEC requirements. When investing in Tender Offer funds, a client could be locked into the fund anywhere from one year to ten (10) years, or longer depending on the discretion of the Fund’s Board of Trustees. These funds expose investors to liquidity risk, and that risk is greater in funds that invest in securities of companies with smaller market capitalizations, derivatives, or securities with substantial market and/or credit risk. There is no guarantee that investors will be able to sell Tender Offer fund shares at any given time or in the quantity that they desire. Interval funds are required by the SEC to redeem for cash no less than 5% of the outstanding shares per quarter, though the exact amount may be higher. The price that shareholders will receive on a repurchase will be based on the per share NAV determined as of a specified date. This date will occur sometime after the close of business on the date that shareholders must submit their acceptances of the repurchase offer so investor may not know the exact price they will receive for their redemption when effecting the transaction. Additionally, this price may be subject to a redemption fee that further erodes the value of the position upon redemption. Limited Partnership funds can also have strict redemption policies or restrictions that will be disclosed in each offering document. Therefore, it

is important for a client to keep their liquidity needs in mind when purchasing either of these types of investments. Please discuss with your IAR if you have any questions.

Paragon may also provide advice on any type of investment held in a client’s portfolio at the inception of the advisory relationship. Paragon will explore other investment options at the client’s request. Additionally, Paragon reserves the right to advise clients on any other type of investment that it deems appropriate based on the client’s stated goals and objectives.

When investment markets are experiencing extraordinary circumstances, Paragon may decide to move the assets in a client’s account to cash and then resume asset allocation at a future time.

Paragon may utilize fundamental analysis. Fundamental analysis is performed on historical and present data, with the goal of making better financial decisions. The main sources of information include financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources that the firm may use include Morningstar mutual fund information, Morningstar stock information, Bloomberg research, Charles Schwab and Co., Inc. (“Schwab”) research, Internet, third-party research providers, and other resources that may be deemed relevant.

### **Investment Strategies**

The primary investment strategy used on client accounts seeks to maximize return at a given level of risk. Paragon develops a diversified investment portfolio by mixing different assets in varying proportions depending on the client and current economic climate. The primary purpose of Asset Allocation is to reduce the risk in the portfolio, while maintaining or enhancing the rate of return of the portfolio. Portfolios are globally diversified to control the risk associated with traditional markets.

Each client receives investment advice regarding their portfolio based upon his or her:

- Time Horizon
- Risk Tolerance
- Goals and Objectives
- Asset Class Preferences

The investment vehicles used to invest in the various asset classes include, but are not limited to, the following:

- Mutual funds
- Stocks
- Bonds

- Exchange Traded Funds
- Alternative Investments such as Interval, Tender Offer, or Limited Partnership (e.g., venture capital, real estate, etc.) funds
- Certificates of Deposit
- Variable Annuities
- Options

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.

Paragon’s methods of analysis and investment strategies do not present any significant or unusual risks other than those associated with the financial markets.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis Paragon must have access to current/new market information. Paragon has no control over the distribution rate of market information. An accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Paragon recognizes, and clients should understand, that some investment strategies are more suitable to certain time frames than other investments. Longer term investment strategies require a longer investment horizon to allow for the strategy to have full potential to develop. Shorter term investment strategies require a shorter time horizon for potential development; however, as a result of more frequent trading, they may incur higher transaction costs when compared to a longer term investment strategy.

### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Paragon’s investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

Interest-rate Risk: The risk that investment returns will be affected by changes in the level of interest rates. When interest rates increase, the values of bonds generally decrease. When interest rates decrease, the values of bonds generally increase.

Market Risk: The risk that investment returns will be affected by changes in the overall level of the stock market. When the stock market as a whole increases or decreases, most stocks are affected to some degree.

Reinvestment Rate Risk: The risk incurred when an investment’s income is reinvested at a lower rate than the rate that existed at the time the original investment was made. This risk is most prevalent when interest rates fall.

Purchasing Power Risk (Inflation Risk): The risk that inflation will affect the return of an investment in real dollars. In other words, the amount of goods that one dollar will purchase decreases with time, in an inflationary environment. Investments that have low returns, such as savings accounts, are not likely to keep up with inflation. Investments with fixed returns, such as bonds, may decrease in value because their purchasing value will decrease with inflation.

Business Risk: The risk associated with a particular industry or firm. These are factors that affect the industry or firm, but do not affect the whole market. They may include government regulations, management competency, or local or regional economic factors.

Financial Risk: The risk associated with the mix of debt and equity used to finance a firm. The greater the financial leverage, the greater the financial risk.

Currency Risk (Exchange Rate Risk): The risk that a change in the value of a foreign currency relative to the U.S. dollar will negatively affect a U.S. investor’s return.

Sovereign/Political Risk: The risk that the political system of a government or a nation changes. For example, a sovereign nation may refuse to honor its debts and/or nationalizes its currency.

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.

In general, cash equivalents provide liquidity with minimum income, and a return of principal with no capital appreciation. Cash equivalents are, however, subject to purchasing power risk.

Fixed income investments provide current income. Usually, the longer the maturity of the security, the higher the income it will generate. Also, with longer maturities, fixed income investments will have greater price volatility and greater opportunity for capital gains or capital losses. Fixed income investments are subject to interest rate risk, reinvestment rate risk, and purchasing power risk. In addition, foreign bonds would be subject to currency rate risk and sovereign risk; junk bonds would be subject to business risk and financial risk.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Mutual fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

Equity investments are subject to greater volatility, thus providing a greater opportunity for capital gains, and a greater opportunity for capital losses. Equity investments offer little or no current income. Equity investments are subject to market risk and interest rate risk, while providing an opportunity to protect against purchasing power risk. Also, stock mutual funds, rather than individual equities, may limit the exposure to business risk and financial risk.

Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries. Small-company stocks entail additional risks, and they can fluctuate in price more than larger company stocks.

Investments are not FDIC-insured, nor are they deposits of (or guaranteed by) a bank or any other entity, so they may lose value.

System Failures and Reliance on Technology Risks: Our investment strategies, operations, research, communications, risk management, and back-office systems rely on technology, including hardware, software, telecommunications, internet-based platforms, and other electronic systems. Additionally, parts of the technology used are provided by third parties and are, therefore, beyond our direct control. We seek to ensure adequate backups of hardware, software, telecommunications, internet-based platforms, and other electronic systems, when possible, but there is no guarantee that our efforts will be successful. In addition, natural disasters, power interruptions and other events may cause system failures, which will require the use of backup systems (both on- and off-site). Backup systems may not operate as well as the systems that they back up and may fail to properly operate, especially when used for an extended period. To reduce the impact a system failure may have, we continually evaluate our backup and disaster recovery systems and perform periodic checks on the backup systems’ conditions and operations. Despite our monitoring, hardware, telecommunications, or other electronic systems malfunctions may be unavoidable, and result in consequences such as the inability to trade for or monitor client accounts and portfolios. If such circumstances arise, Paragon Management will consider appropriate measures for clients.

Cybersecurity Risk: A portfolio is susceptible to operational and information security risks due to the increased use of the internet. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyberattacks include, but are not limited to, infection by computer viruses or other malicious software code, gaining unauthorized access to systems, networks, or devices through “hacking” or other means for the purpose of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cybersecurity failures or breaches by third-party service providers may cause disruptions and impact on the service providers’ and our business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement, or other compensation costs, and/or additional compliance costs. While we have established business continuity plans and risk management systems designed to prevent or reduce the impact of such cyberattacks, there are inherent limitations in such plans and systems due in part to the ever-changing nature of technology and cyberattack tactics.

Pandemic Risks: The recent outbreak of the novel coronavirus rapidly became a pandemic and has resulted in disruptions to the economies of many nations, individual companies, and the markets in general, the impact of which cannot necessarily be foreseen at the present time. This has created closed borders, quarantines, supply chain disruptions and general anxiety, negatively impacting global markets in an unforeseeable manner. The impact of the novel coronavirus and other future infectious diseases in certain regions or countries may be greater or less due to the nature or level of their public health response or other factors. Health crises caused by the recent coronavirus outbreak or future infectious diseases may exacerbate other pre-existing political, social, and economic risks in certain countries. The impact of such health crises may be quick, severe, and of unknown duration. These pandemics and other epidemics and pandemics that may

arise in the future could result in continued volatility in the financial markets and could have a negative impact on investment performance.

Different types of investments involve varying degrees of risk, and the client should not assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended by Paragon) will be profitable or equal to any specific performance level(s). The above list of risk factors does not purport to be a complete list or explanation of the risks involved in an investment strategy. You are encouraged to consult your IAR on a continuous basis in connection with selecting and engaging in the services we provide.

## **Item 9 – Disciplinary Information**

Paragon has no reportable legal or disciplinary events.

## Item 10 – Other Financial Industry Activities and Affiliations

Neither Paragon nor its representatives are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither Paragon, nor its representatives, are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

In addition, neither Paragon nor any of our management persons have any relationship or arrangement that is material to our advisory business or to our clients that Paragon or any of our management persons have with an affiliated person that is a:

- Broker-dealer, municipal securities dealer, or government securities dealer or broker,
- Investment company or other pooled investment vehicle,
- Other investment adviser or financial planner,
- Futures commission merchant (or commodity pool operator or commodity trading advisor),
- Banking or thrift institution,
- Accountant or accounting firm,
- Lawyer or law firm, Pension consultant, Real estate broker or dealer, or
- Sponsor or syndicator of limited partnerships.

Paragon may recommend other investment advisors or fund managers, but we have no compensation arrangements with such managers.

## Item 11 – Code of Ethics

Paragon has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Paragon must acknowledge the terms of the Code of Ethics annually or as amended.

Paragon anticipates that, in appropriate circumstances, consistent with clients’ investment objectives, it will cause accounts over which Paragon has management authority to effect and will recommend to investment supervisory clients or prospective clients, the purchase or sale of securities in which Paragon, its affiliates and/or clients, directly or indirectly, have a position of interest. Paragon’s employees and persons associated with Paragon are required to follow Paragon’s Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors, and employees of Paragon may trade for their own accounts in securities that are recommended to and/or purchased for Paragon’s clients. The Code of Ethics is designed to assure that the personal securities transactions, activities, and interests of the employees of Paragon will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Paragon’s clients. In addition, the Code requires pre-clearance of certain transactions. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Paragon and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Paragon's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Paragon will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

Paragon’s clients or prospective clients may request a copy of the firm's Code of Ethics by contacting David W. Hailey at (979) 693-3907 or [dhailey@paragon-adv.com](mailto:dhailey@paragon-adv.com).

It is Paragon’s policy that the firm will not affect any principal or agency cross securities transactions for client accounts.

Donations to Charities: From time to time, Paragon (or its supervised persons) donates to charitable organizations that are affiliated with clients, are supported by clients, and/or are supported by an individual employed by one of our clients. In general, such donations are made

in response to requests from clients or their personnel. Because such contributions could result in the recommendation of Paragon or its products, such contributions can raise a potential conflict of interest. As a result, Paragon maintains procedures that monitor the dollar amount and frequency of charitable contributions and requires that all contributions be made directly to the charitable organization (normally a 501(c)(3) organization). No contribution will be made if the contribution implies that continued or future business with Paragon depends on making such contribution.

## Item 12 – Brokerage Practices

### Use of Brokerage Firms (Custodians)

In the event that the client requests that Paragon recommend a broker dealer/custodian for execution and/or custodial services, Paragon generally recommends that investment management accounts be maintained at Schwab, member FINRA/SIPC/NFA, an unaffiliated SEC-registered broker-dealer and FINRA member, to maintain custody of clients' assets and to effect trades for their accounts. Schwab is independently owned and operated and not affiliated with Paragon and does not supervise or otherwise monitor Paragon's investment management services to its clients. Schwab provides Paragon with access to its institutional trading and custody services, which typically are not available to Schwab retail investors. Schwab's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Paragon will also recommend additional custodians for direct limited partnership investments, educational 529s, variable annuities, ORP, 403b, and other retirement plans, or assets that require an independent trustee based on the clients' needs and particular abilities of certain custodians.

Paragon also receives benefits from Schwab because they 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 available to Paragon by third-party vendors. Some of the products and services made available by Schwab benefit Paragon but may not benefit its Client accounts. These products or services assist Paragon in managing and administering Client accounts, including accounts not maintained at Schwab. Other services made available by Schwab are intended to help Paragon manage and further develop its business enterprise. The benefits received by Paragon or its personnel through Schwab do not depend on the amount of brokerage transactions directed to Schwab. As part of its fiduciary duties to clients, Paragon endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Paragon or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Paragon's choice of Schwab for custody and brokerage services. Paragon addresses this potential conflict of interest by establishing a compliance program that monitors the services (including execution) provided by Schwab to help ensure their platform is utilized with the best interests of our clients at the forefront.

Prior to engaging Paragon to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Paragon setting forth the terms and conditions under which Paragon shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Paragon considers in recommending Schwab (or any other broker-dealer/custodian to clients) include historical relationship with Paragon, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Paragon's clients shall comply with the Paragon's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Paragon determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Paragon will seek competitive rates, it may not necessarily obtain the lowest possible commission or transaction rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Paragon's investment management fee. Paragon's best execution responsibility is satisfied if securities that are purchased for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

For those assets that are not able to be maintained at Paragon's primary custodian, Paragon will use research for another viable entity to custody those assets.

### **Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Paragon may receive from Schwab (or another broker-dealer/custodian) without cost (and/or at a discount) support services and/or products, some of which assist Paragon to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Paragon are investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Paragon in furtherance of its investment supervisory business operations.

As indicated above, some of the support services and/or products that are received assist Paragon in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Paragon to manage and further develop its business enterprise.

Paragon's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of these arrangements. There is no corresponding commitment made by Paragon to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities, or other investment products as result of the above arrangement.

Paragon's Chief Compliance Officer, David W. Hailey, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

**Aggregation of Client Trades**

To the extent that Paragon provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Paragon decides to purchase or sell the same securities for several clients at approximately the same time. Paragon may (but is not obligated to) combine or “bunch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Paragon’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Paragon shall not receive any additional compensation or remuneration as a result of such aggregation.

Schwab provides the clients with consolidated statements. Paragon’s employees are not registered representatives of Schwab and do not receive any commissions or fees for recommending these services.

**Directed Brokerage**

Some clients may instruct Paragon to use one or more particular brokers for the transactions in their accounts. Clients who may want to direct Paragon to use a particular broker should understand that this may prevent Paragon from effectively negotiating brokerage compensation on the client’s behalf. This arrangement may also prevent Paragon from obtaining the most favorable net price and execution. Thus, when directing brokerage business, clients should consider whether the commission expenses and execution, clearance, and settlement capabilities that they will obtain through their broker are adequately favorable in comparison to those that Paragon would otherwise obtain for its clients. Clients are encouraged to discuss available alternatives with their advisory representative.

## **Item 13 – Review of Accounts**

### **Review of Accounts**

For those clients to whom Paragon provides investment management supervisory services, account reviews will be conducted on an ongoing basis with the client’s investment advisory representative. All investment supervisory clients are advised that it remains their responsibility to advise Paragon of any changes in their investment objectives and/or financial situation, or if they wish to impose any reasonable restrictions on Paragon’s discretionary management services. All clients (in person or electronically) are encouraged to review investment objectives and account performance with Paragon on an annual basis.

Paragon may conduct account reviews on a non-periodic basis upon the occurrence of a triggering event such as a market correction, large deposits or withdrawals from an account, substantial changes in the value of a client’s portfolio, change in the client’s investment objectives and client request.

### **Reports to Clients**

The account custodian provides monthly or quarterly statements to clients. For those clients to whom Paragon provides investment supervisory services, they may receive investment tax reports on an annual basis and performance reports periodically, unless otherwise agreed upon with the client. Additional reports are available and will be provided on an ad hoc basis.

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

As disclosed under Item 12 above, some of the products and services made available by Schwab benefit Paragon but not all Client accounts. These products or services may assist Paragon in managing and administering Client accounts, including accounts not maintained at Schwab. Other services made available by Schwab are intended to help Paragon manage and further develop its business enterprise. The benefits received by Paragon or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to Schwab. As part of its fiduciary duties to clients, Paragon endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Paragon or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Paragon’s choice of Schwab for custody and brokerage services.

Non-employee (outside) consultants, individuals and/or entities, who are directly responsible for bringing a client to Paragon, may receive compensation from Paragon. Such arrangements will comply with the requirements set forth in Rule 206(4)-1 of the Investment Advisers Act of 1940, including the requirement that the relationship (including any compensation and/or conflicts of interest) between the promoter and the investment adviser be disclosed to the client at the time of solicitation or referral. Under these arrangements, the client does not pay higher fees than Paragon’s normal/typical advisory fees.

## Item 15 – Custody

We do not have custody of client funds or securities. However we are deemed to have limited custody of some of our clients’ funds or securities when, with a client’s consent, Paragon may be provided with the authority to seek deduction of Paragon’s fees from a client’s accounts; this process generally is more efficient for both the client and the investment adviser, and there may be tax benefits for the client to this method when fees can be paid from certain tax-deferred accounts of clients. The account custodian does not verify the accuracy of Paragon’s advisory fee calculation. In addition, we are also deemed to have custody of clients’ funds or securities when clients have standing letters of authorizations (“SLOAs”) with their custodian to move money from a client’s account to a third-party, and under that SLOA it authorizes us to designate the amount or timing of transfers with the custodian. The SEC has set forth a set of standards intended to protect client assets in such situations, which we follow.

All clients receive account statements directly from qualified custodians, such as a bank or broker dealer that maintains those assets. The client should carefully review these account statements and compare them to any other reports provided by Paragon. Statements provided by Paragon may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. We urge all of our clients to compare statements in order to ensure that all account transactions, including deductions to pay advisory fees, remain proper, and to contact us with any questions. If you are not receiving at least quarterly custodial account statements, please contact us at the number on the cover page of this brochure.

## Item 16 – Investment Discretion

Paragon typically receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Prior to Paragon assuming discretionary authority over a client’s account, the client shall be required to execute an *Investment Advisory Agreement*, granting Paragon full authority to buy, sell, or otherwise affect investment transactions. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

Discretionary authority allows Paragon to perform trades in the client’s account without further approval from the client. This includes decisions on the following:

- Securities purchased or sold
- The amount of securities to be purchased or sold

Once the portfolio is constructed, Paragon provides ongoing supervision and re-balancing of the portfolio as changes in market conditions and client circumstances may require.

Paragon seeks to undertake a minimal amount of trading in client accounts, in order to keep transaction fees, other expenses, and tax consequences associated with trading to minimal levels.

Clients who engage Paragon on a discretionary basis may, at any time, impose restrictions, in writing, on Paragon’s discretionary authority (i.e., limit the types/amounts of particular securities purchase for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Paragon’s use of margin, etc.).

**Item 17 – Voting Client Securities**

Paragon will not vote proxies on behalf of advisory clients’ accounts. Although, on rare occasions and only at the client’s request, the Paragon may offer clients advice regarding corporate actions and the exercise of proxy voting rights.

Clients will receive their proxies or other solicitations directly from their broker-dealer/custodian.

**Item 18 – Financial Information**

Paragon does not require or solicit prepayment of more than \$1,200.00 in advisory fees per client, six months or more in advance. In addition, Paragon is unaware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Lastly, Paragon has never been the subject of bankruptcy proceedings.