

INVESTMENT MISTAKES & EXPENSES

It's Your Money – Week 4

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PRESENTATION OVERVIEW

- Mistakes when hiring an advisor
- Financial & Insurance Products
 - Pros & Cons
 - Risks
 - Fees/Commissions
 - Exit Strategy

MISTAKES HIRING AN ADVISOR

- Not using the “Ask First” form
- Financial advisor terms are interchangeable and hold no legal meaning. Don’t fall for the advisor's title!
- Enamored by the “alphabet soup” of credentials. Know the credentials:
 - Certified Financial Planner (CFP®) – Specializes in financial planning
 - Certified Public Accountant (CPA) – Specializes in taxes
 - Chartered Financial Analyst (CFA®) – Specializes in investments

MISTAKES HIRING AN ADVISOR (CONT.)

- Registered Investment Advisor vs Registered Representative (Broker)
 - Fiduciary vs Best interest
 - Ongoing vs transactional
- Advisor does not use an independent custodian
- Not reviewing your advisor's background before hiring:
 - <https://adviserinfo.sec.gov/>
 - <https://brokercheck.finra.org/>
 - Form ADV

MISTAKES HIRING AN ADVISOR (CONT.)

- Not asking how an advisor is compensated:
 - Commission
 - Fee-based (fees + commissions)
 - Fee-only based on Assets under Management
 - Fee-only retainer model
 - Fee-only hourly
- You don't feel you can trust the advisor

ANNUITIES

PROS

- Predictable income
- Retirement security
- Tax-deferred growth

CONS

- Fees & expenses
- Limited liquidity
- Complexity
- Inflation risk
- Issuer Risk

MUTUAL FUNDS

A Shares — Front-End Load

- Sales charge paid when you purchase the fund
- Typically lower ongoing 12b-1 fees

B Shares — Back-End Load

- Generally no upfront sales charge
- May charge a contingent deferred sales charge when sold early
- Typically higher ongoing expenses

C Shares — Level Load

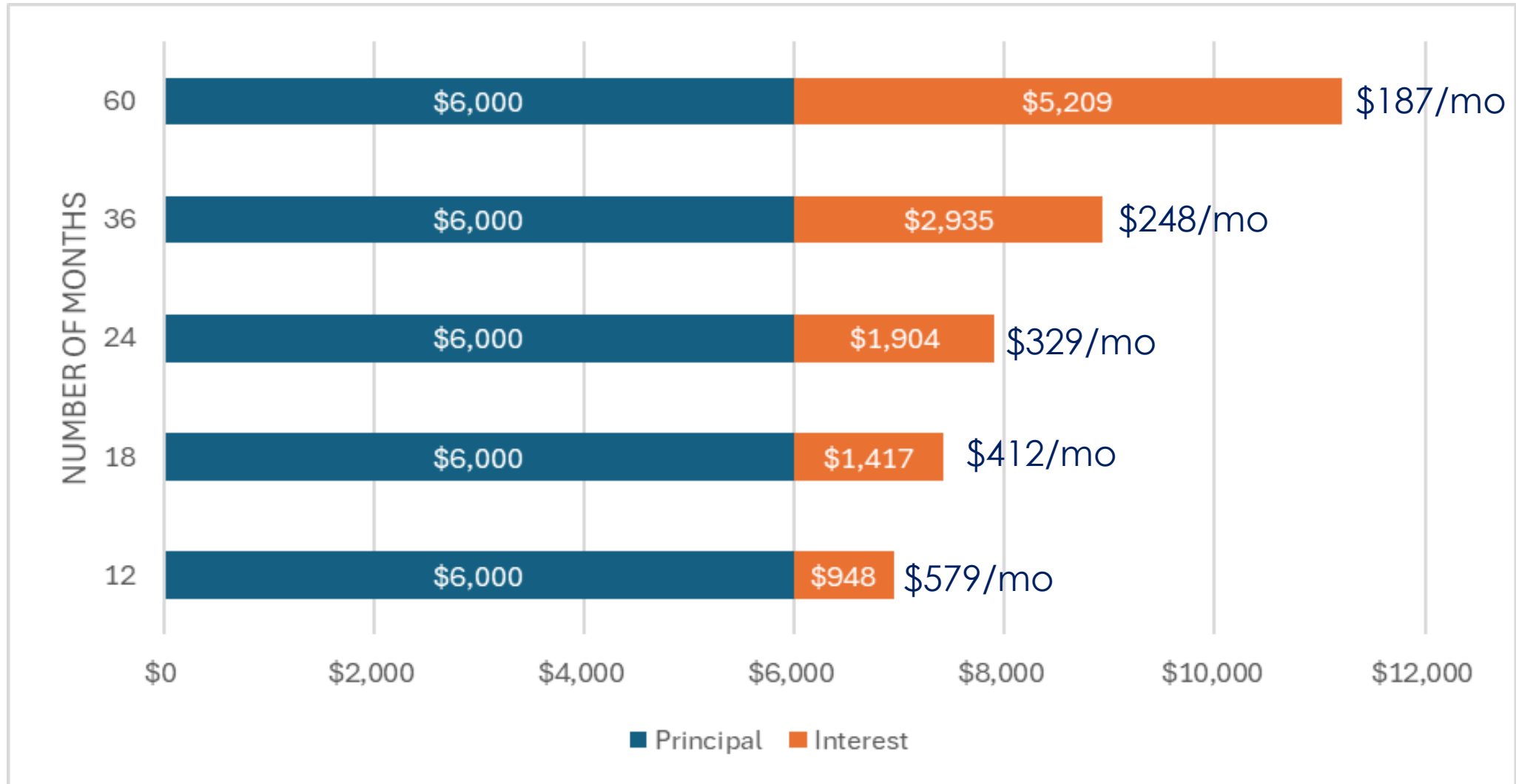
- Usually little or no upfront sales charge
- Higher ongoing 12b-1/marketing expenses
- May have a short-term redemption charge

Review expense ratios (12b-1 + management/admin fees)

EXCHANGE TRADED FUND (ETF)

- Trades throughout the day like an individual stock
- Typically more tax-efficient (mutual funds have capital-gain distributions)
- Beware of high bid-ask spreads
- Beware of high cost ETFs that track an index
 - Example: S&P 500 ETF with a 1% expense ratio

CREDIT CARDS



Total Cost of Repaying \$6,000 Credit Card Debt with 28% interest

WRAP ACCOUNTS

- Single bundled fee for investment advice, brokerage services, admin expenses, etc
- Some fees in addition to the wrap fee
- If funds are proprietary to brokerage firm, may be difficult to transfer out of the wrap account
- Often very high costs compared to industry (1%+ per year)

PRIVATE LIMITED PARTNERSHIPS

PROS

- Alternative investments
- Potential higher returns
- Tax-deferred growth

CONS

- High risk
- Limited liquidity
- High Fees
- Complex tax reporting (K-1)
- Quarterly, less transparent valuations

STRUCTURED INCOME PRODUCTS

PROS

- Downside protection
- Customizable
- Options based strategies without needing to trade options yourself

CONS

- Limits upside
- High Fees
- Investing in stock & bonds often outperforms similar structured product

ACTIVE CONSUMER STOCK TRADER

PROS

- Control of investments
- Potential higher returns

CONS

- Very high risk
- Trading against professionals
- Most individual stocks do not perform well
- Often emotional

OPTIONS & FUTURE TRADING

PROS

- Hedging your portfolio
- Access to leverage without borrowing
- Valid uses when operating a business

CONS

- High Risk
- Zero Sum Game
- Leverage increases losses
- Complexity

FINANCIAL NEWSLETTERS

- Profit from selling “fear” and “excitement”
- Can be beneficial to stay up to date on a company or market
- Many variables effect markets and newsletters often oversimplify
- May make you over-confident in your financial decision making

“HOT” INVESTMENTS



1711

South Sea Bubble

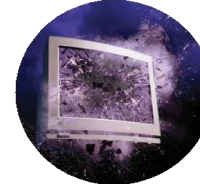
A speculative mania that ruined many British investors, centered on the fortunes of the South Sea Company and trade with Spanish America.



1840s

Railway Mania

Britons were swept up again in a speculative frenzy, many lost their life savings.



1990s

Americans were swept up the “Tech Bubble” of the late 1990s.



2022 ???

Speculative behavior from r/wallstreetbets movement driven by “FOMO”

1600s

1700s

1800s

1900s

2000s

1636

Dutch Tulip Mania

First bubble in modern history.



1792

Panic of 1792

a credit crisis that hit newly formed Bank of the United States.



1929

Great Depression

Roaring 20s culminate with a prolonged depression in the US



2008

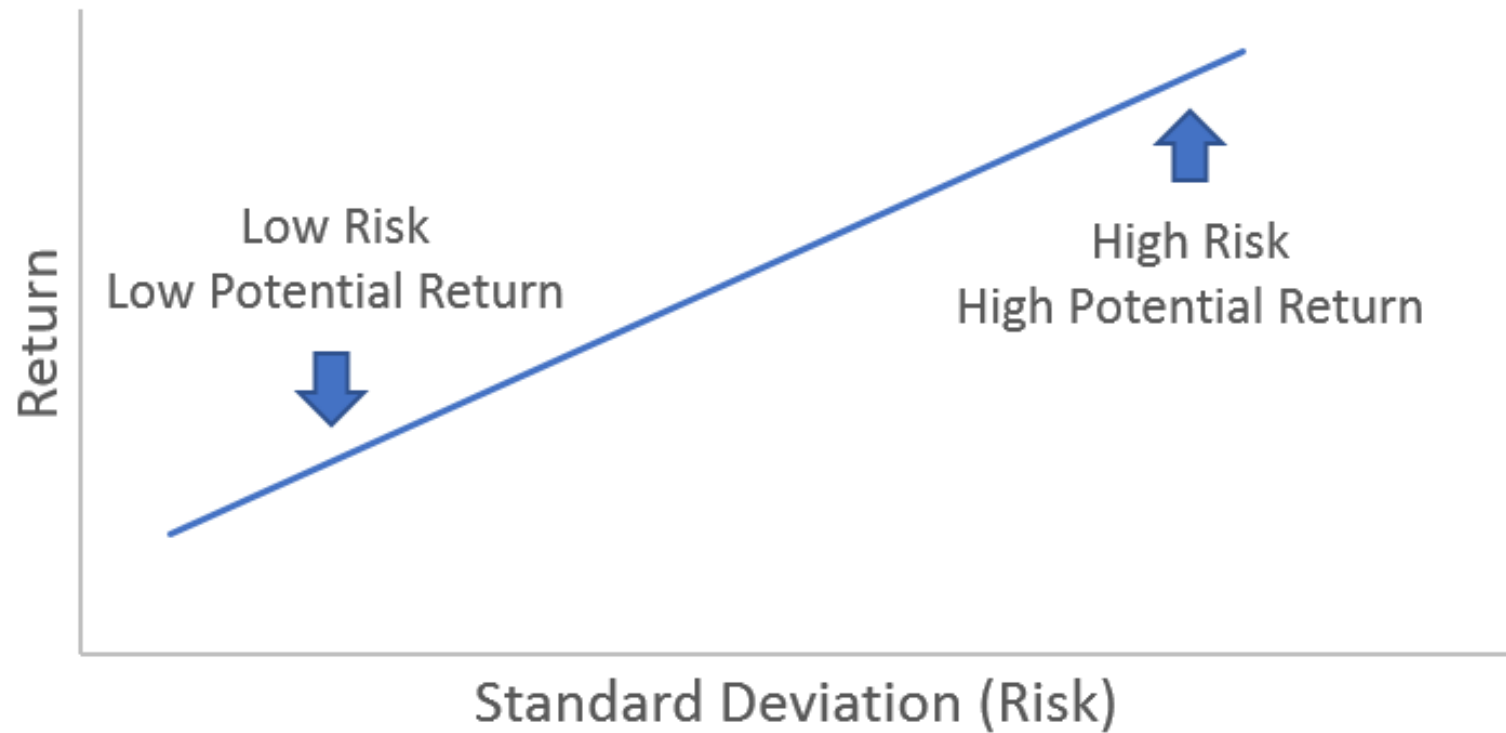
US Financial Crisis

Began with a crisis in the US mortgage market and developed into a full-blown international banking crisis.



RISK AND RETURN

Risk-Return Trade-off



THANK YOU!