It's Your Money!

Investment World

Presented by: Michael Allbee, CFP® & Paul Horn, CFP®, CPWA®, MS

Benefit Financial Services Group

FINANCIAL & ESTATE LITERACY

Paul Horn, CFP® , CPWA®

Director of Financial Planning

https://www.bfsg.com/our-team/

- As a Senior Financial Planner & Wealth Manager, Paul takes an active role in educating clients to help them grow, manage and protect their wealth. Paul assists clients in various aspects of wealth management including clients in transition, retirement planning, succession planning for business owners and planning for executives. He began his career in 2005 with Wells Fargo and has over 17 years helping high net worth individuals with complex retirement, investment, tax and estate planning. Paul is also a member of our investment committee.

- Paul is a Certified Financial Planner™ (CFP®) professional and a Certified Private Wealth Advisor™ (CPWA®). Paul holds a Master of Science degree in Portfolio Management and Security Analysis from Creighton University. Paul spends his time outside work with his wife and two young children.

Registered Investment Advisor vs. Brokers

Fee-Only Registered Investment Advisor

- Legally functions under the **fiduciary** standard
- A ***fee-only*** registered investment advisor does not sell products.
- Act with prudence, that is, with the skill, care, diligence and good judgment of a professional
  - A fee-only registered investment advisor is agnostic to the investment providers used when managing assets
- Full and fair disclosure of important facts
  - Internal fees are disclosed and exposed to negotiate lower costs. Fiduciary duty requires cost controls and making decisions based on participant and beneficiaries best interests
- Eliminate and disclose conflicts of interest and fairly manage unavoidable conflicts in the client's favor

Registered Representative (Broker)

- Legally functions under the **best interest** standard, effective June 30, 2020
  - Must act in the best interest of the retail customer at the time the recommendation is made
  - Broker needs to take into consideration only the brokerage accounts available (not the overall relationship)
- Sells a product for a commission
  - ***Transactional relationship*** vs. ongoing
- Must exercise reasonable diligence, care, and skill
  - May be able to recommend more expensive security or investment strategy if there are other factors about the product or strategy that reasonably allow the broker to believe it is in the best interest of the retail customer, based on that retail customer's investment profile
  - Does not prevent a broker from offering only proprietary products, placing material limitations on the menu of products, or incentivizing the sale of such products through its compensation practices
- Identify and at a minimum disclose conflicts of interest (does not apply to associated persons of broker-dealer)

How to Find a Financial Advisor

Not all advisers are created equal. Here are some important considerations:

Fiduciary – Make sure they legally function under the “fiduciary standard” and must act in your best interest and not simply under the “best interest standard”. Under the “best interest standard” it is more of a transactional relationship.

Fee Only – This aligns their interests with yours and reduces conflicts of interest (no product sales, no commissions, no referral fees).

Proper Education – Most widely recognized designations are:

- Certified Financial Planner™ (CFP®) – Specializes in financial planning
- Certified Public Accountant (CPA) – Specializes in taxes
- Chartered Financial Analyst (CFA®) – Specializes in investments

Assets should be held at a 3rd party custodian – Have your assets with a custodian like Schwab, Fidelity or others for your protection.

Confirm they can meet your individual needs:

- Do they work with similar clients?
- How often will they meet with you?
- How do they make investment decisions?
- What services do they offer?

Research potential Advisers and their firm:

- Review Form ADV at https://www.adviserinfo.sec.gov.
- Use Broker Check to see advisers background and potential disciplinary history at https://brokercheck.finra.org/.

Who Oversees the Financial Services Industry?

The Security and Exchange Commission (SEC): U.S. governmental agency that regulates securities transactions, activities of financial professionals and mutual fund trading to prevent fraud, manipulation and deception

The Financial Industry Regulatory Authority (FINRA): A self-regulatory organization (SRO) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange. It is a non-governmental organization that regulates member brokerage firms and exchange markets

The SEC is the government agency and ultimate regulator of the securities industry including FINRA

What Do These Licenses Mean?

Series 7: sell all securities products except commodities and futures

Series 24: supervise and manage branch activities at a broker-dealer

Series 53: supervise municipal securities activities of a securities firm or bank dealer

Series 63: holder can solicit orders for any type of security in a particular state

Series 65: holder can give investment advice

Use BrokerCheck.finra.org to do background check on any prospective advisor

Life Insurance: Term vs. Permanent

Term	Permanent
• Covers for a specific term (Usually between 10 to 20 years or until age 65)	• Covers for the entire life
• Premiums are relatively lower but increase after term expires (Annual Renewable Term, Level Term, Decreasing Term)	• Premiums are higher but remain level for lifetime (vary from single premium to level premiums)
• Expires with no cash value, all of the premiums go to securing a death benefit to beneficiaries	• Build a cash value from a percentage of premiums • Cash value grows without being taxed • Receive interest on the cash value
• No flexibility, no ability to borrow against policy or to withdraw money	• Flexibility including ability to borrow against your policy
• Very inexpensive at young ages	• Expensive and there is no flexibility with premium payments

Types of Deferred Annuities

Fixed Annuity - Receive a guaranteed rate of return for the money to grow. Similar to a certificate of deposit (CD). Older contracts this may be 3% or more but new contracts are between 4-6%.

Variable Annuity – Money is invested in stocks and/or bonds, so the returns fluctuate with market returns. You carry the investment risk and have the potential to make or lose money.

Indexed Annuity – Your return is linked to a stock market index and capped. You make money if the index goes up but if the index is negative, you limit your downside exposure (buffer or floor).

Understanding Annuity Fees

Surrender Period - The amount of time you must keep an annuity without paying a fee to end the annuity contract.

Sample Surrender Fee Schedule

Period of Time Held Contract (Years)	Surrender Penalty (%)	*	Annuity Balance	=	Surrender Fee ($)
1	8%		$100,000		$8,000
2	8%		$100,000		$8,000
3	7%		$100,000		$7,000
4	6%		$100,000		$6,000
5	5%		$100,000		$5,000
6	4%		$100,000		$4,000
7	3%		$100,000		$3,000

Most annuities allow you to withdraw 10% of the contract value per year without penalty

Understanding Variable Annuity Fees

Variable Annuities – Since the potential growth is uncapped, they have higher fees than other annuities

- Mortality and Expense - The general cost to have the annuity
- Administration – This fee can be combined
- Fund Expense – Annual costs for the underlying investments
- Rider Costs (if any) – Costs for additional guarantees on the annuity

Example of VA Fees	
Mortality and Expense	1.25%
Administration	0.25%
Fund Expense Ratio	1.00%
Living Benefit Rider	1.00%
Total Fees paid each year	**3.50%**

Understanding Index Annuity Fees

Index Annuity Fees: There are caps on potential returns, so you typically do not have additional fees

The total return for the S&P 500 was 15.76%

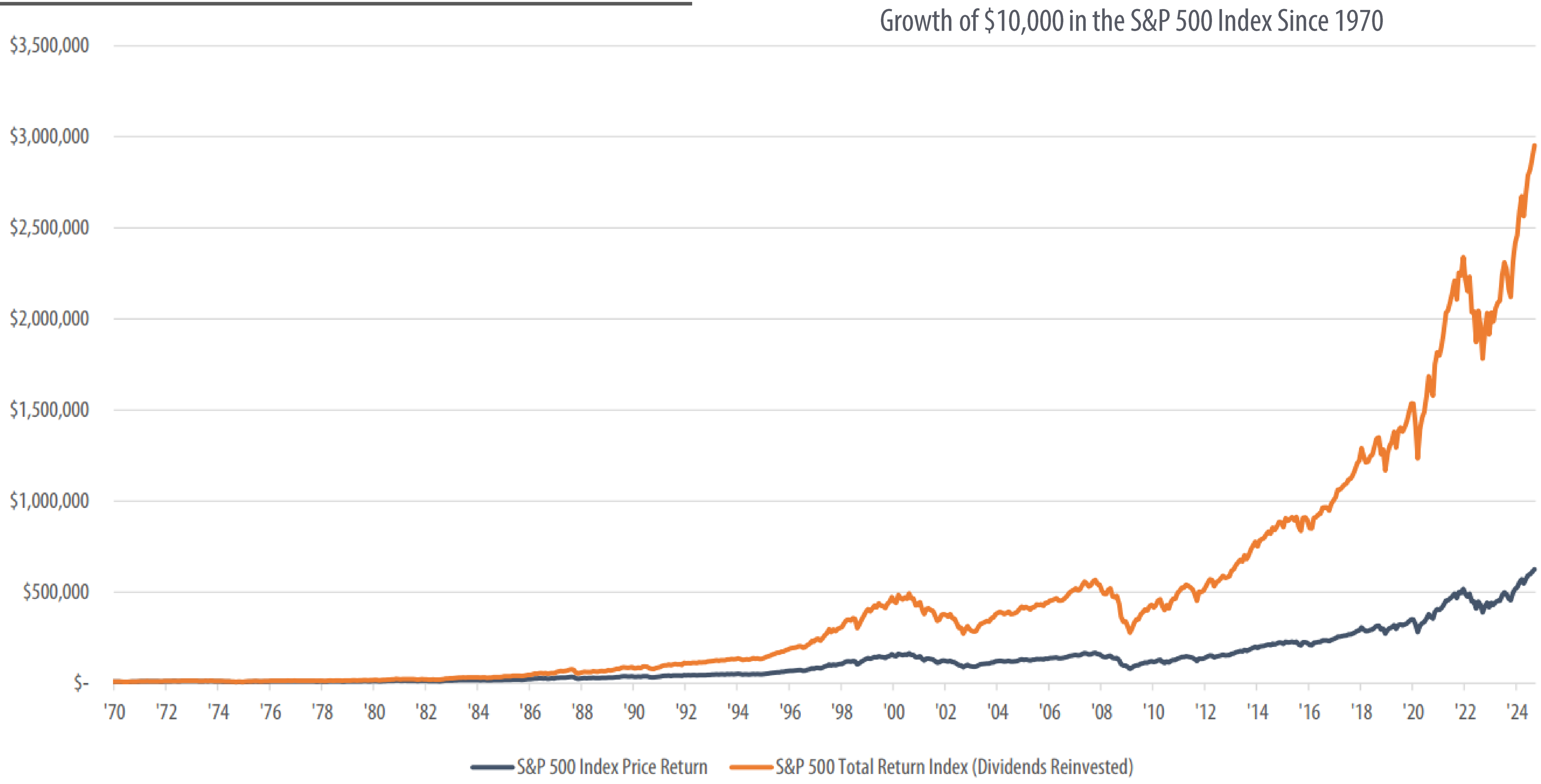
Example of a client's index annuity return for 2020

S & P 500 Index

Monthly Cap 1.00%

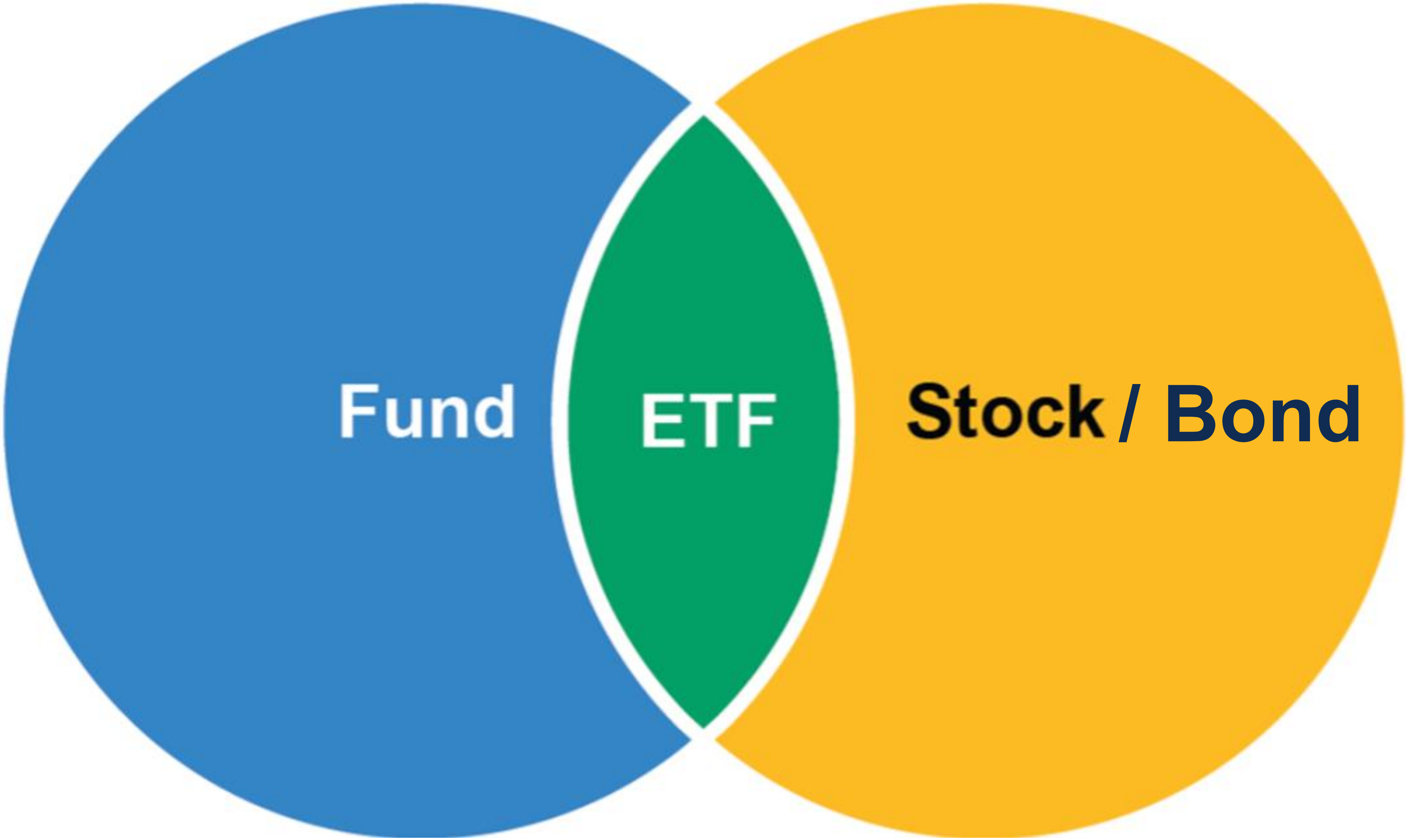
Policy Month	Monthly Index Rate	Capped Monthly Rate
1	3.285%	1.000%
2	-1.340%	-1.340%
3	4.981%	1.000%
4	1.968%	1.000%
5	2.901%	1.000%
6	2.797%	1.000%
7	-10.678%	-10.678%
8	-10.529%	-10.529%
9	8.339%	1.000%
10	10.855%	1.000%
11	-1.522%	-1.522%
12	6.548%	1.000%
Sum of Capped Monthly Rates:		-16.06%
Annual Index Rate:		**0.00%**

Impact of Dividends



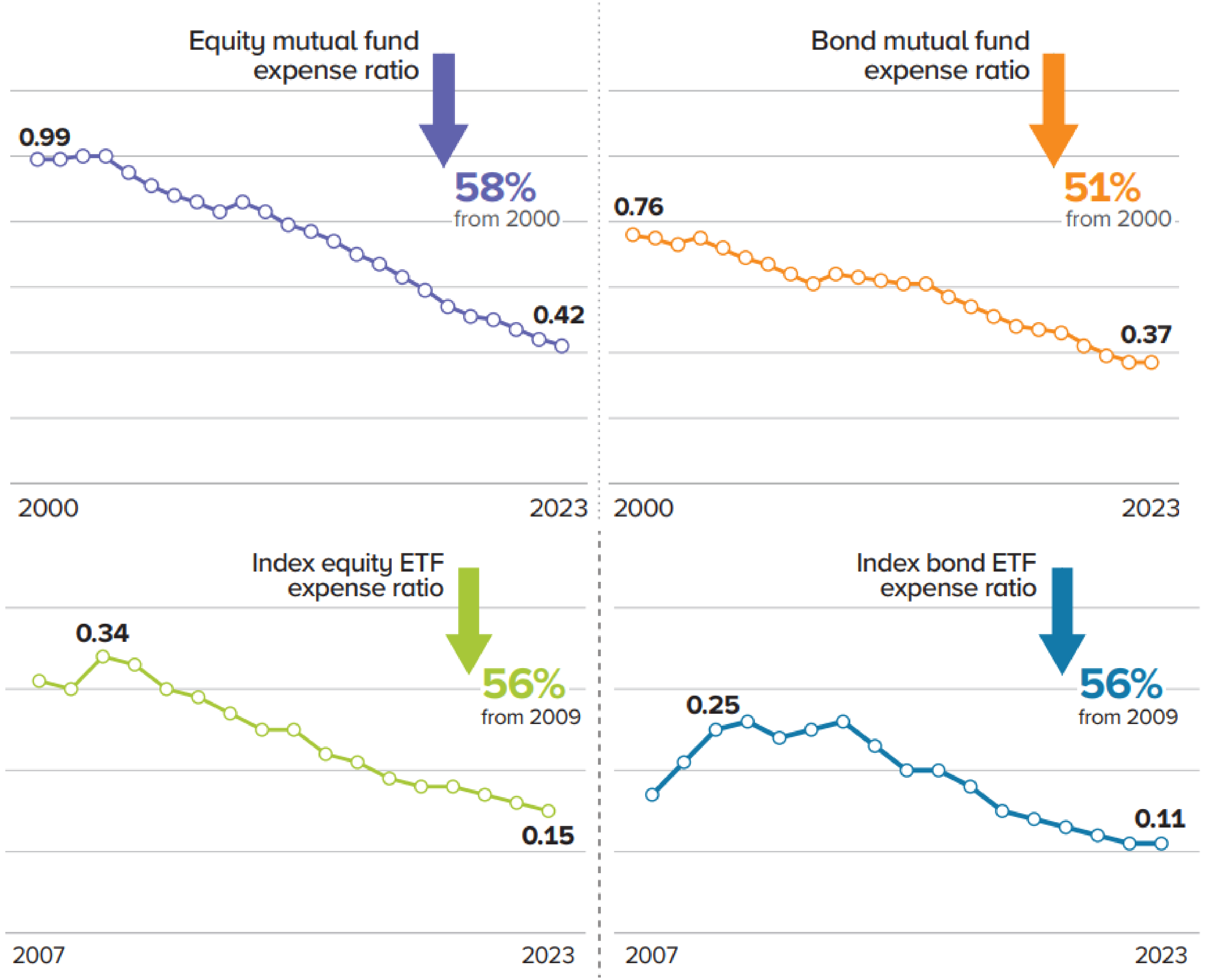
Source: First Trust, Bloomberg. Data from 1/1/1998 - 9/30/2024. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The index cannot be purchased directly by investors.

Investment Vehicles



Source: J.P. Morgan Asset Management. Shown for illustrative purposes only.

Fund Expenses



Source: 2024 Investment Company Factbook (www.icifactbook.org). Asset-weighted average as of 12/31/23.

Mutual Fund Sales Loads

Mutual Funds With Loads: Sold by brokers or licensed insurance agents and carry a large commission

Class A: Front load of typically 5.75% and lower ongoing expenses

Example: Invest $100,000 will have a commission of $5,750 so you only invest $94,250

Class B: Back Load and higher ongoing expenses

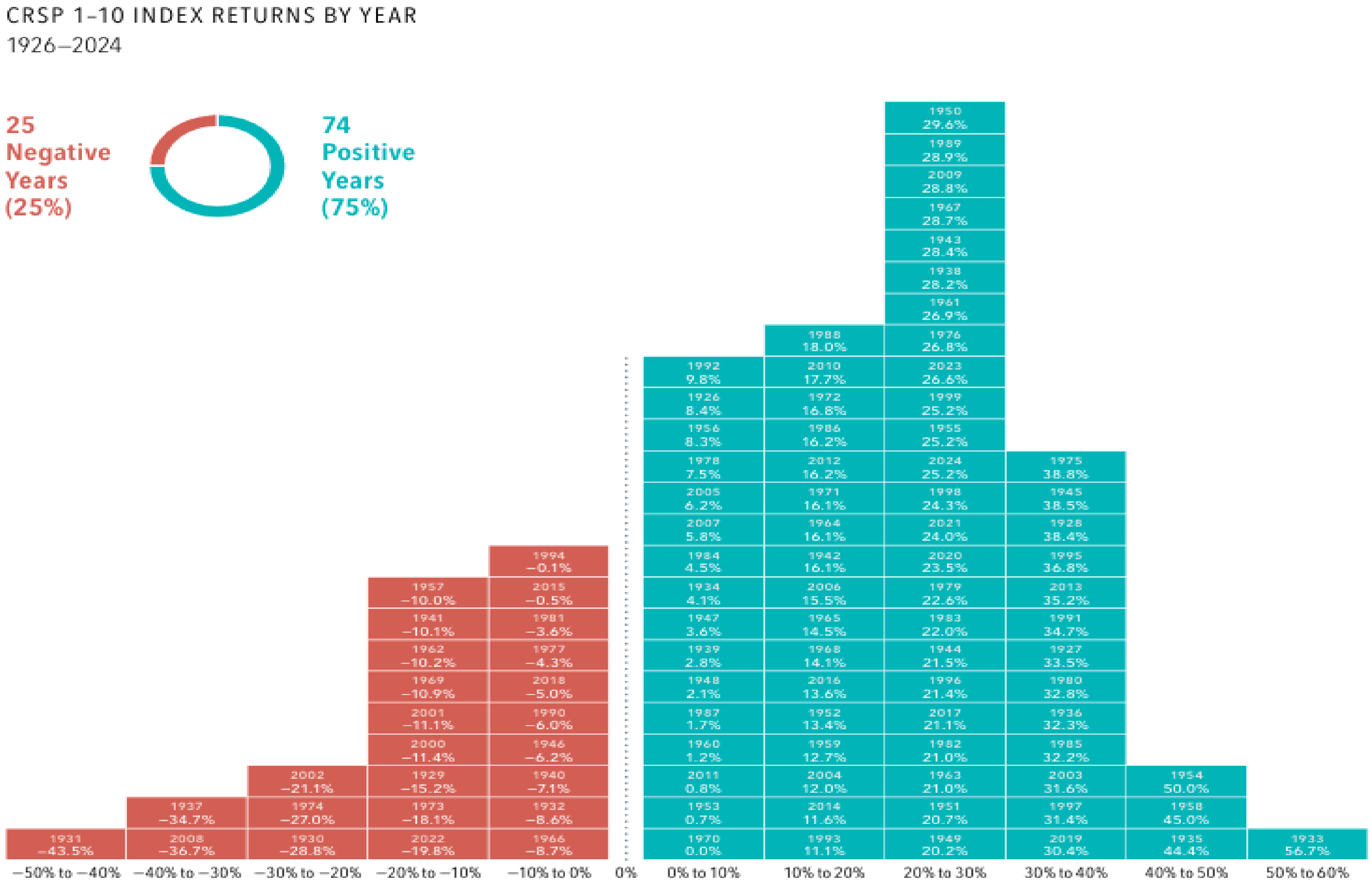
Tip: Possibly the worst share class with the highest fees

Class C: No initial fee but higher ongoing expenses typically around 2% per year

Example: Invest $100,000 and then pay annual fee of $2,000

Mutual Funds With No Loads: Sold directly from the mutual fund company and there is NO commission

Rewarding Distribution of U.S. Market Returns

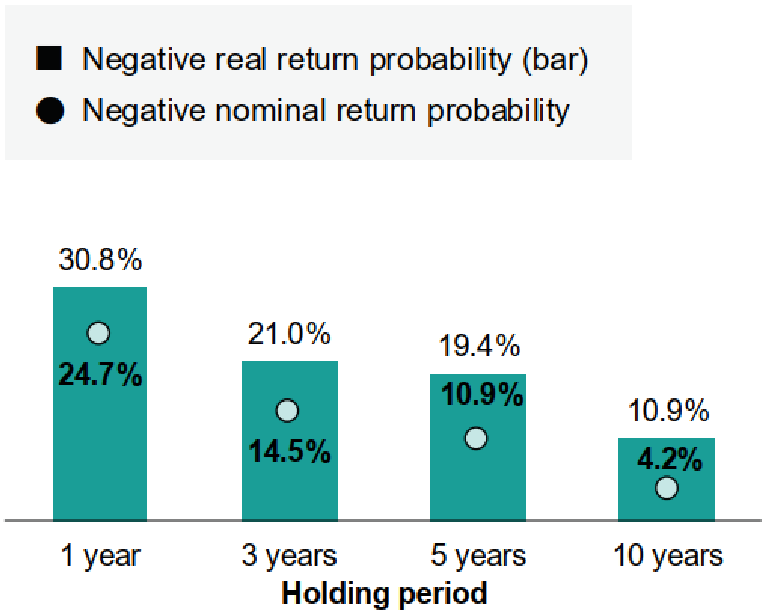


In USD. Return in 1970 was 0.002%. CRSP data provided by the Center for Research in Security Prices, University of Chicago. The CRSP 1–10 Index measures the performance of the total US stock market, which it defines as the aggregate capitalization of all US securities listed on the NYSE, NYSE MKT (formerly AMEX), and Nasdaq Global Market.

Buy and Hold

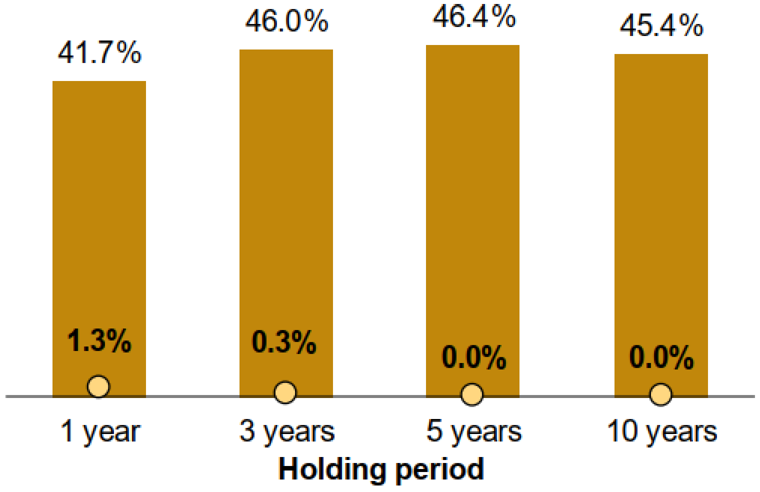
Historical probability of negative return for various holding periods

100% stocks



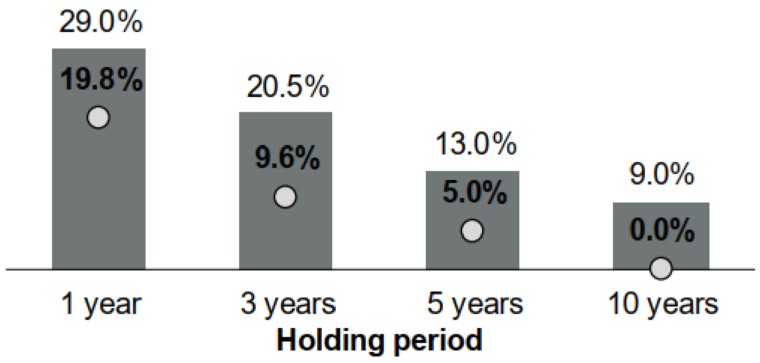
100% Treasury bills

Understanding inflation risk: When adjusted for inflation, U.S. Treasury bills are more likely than stocks to have negative returns.



60% stocks/40% bonds

Benefit of diversification: A 60/40 portfolio has 36% less volatility than a portfolio that is 100% stocks.

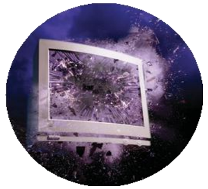


Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.
All investments are subject to risk, including the possible loss of the money you invest. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Investments in bonds are subject to interest rate, credit, and inflation risk.
Source: Vanguard calculations as of December 31, 2024.
Notes: Rolling return periods are based on quarterly return data. Nominal return is expressed in the money of the day, while real return includes the effect of inflation. When determining which index to use and for what period, we selected the index that we deemed to be a fair representation of the characteristics of the referenced market, given the information currently available. For U.S. stock market returns, we used the Standard & Poor's 90 Index from 1935 through March 3, 1957, the S&P 500 Index from March 4, 1957, through 1974, the Wilshire 5000 Index from 1975 through April 22, 2005, the MSCI US Broad Market Index from April 23, 2005, through June 2, 2013, and the CRSP US Total Market Index thereafter. For U.S. bond market returns, we used the S&P High Grade Corporate Index from 1935 through 1968, the Citigroup High Grade Index from 1969 through 1972, the Lehman Brothers U.S. Long Credit AA Index from 1973 through 1975, the Bloomberg U.S. Aggregate Bond Index from 1976 through 2009, and the Bloomberg U.S. Aggregate Float Adjusted Bond Index thereafter. For Treasury bill returns, we used the Ibbotson 1-Month Treasury Bill Index from 1935 through 1977 and the FTSE 3-Month Treasury Bill Index thereafter.

Beware of “Hot Tips”

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.

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Additional Resources

BFSG Resources

- Is An Annuity Right For You?
- Financial and Investment Products You Should Avoid
- Do You Need Life Insurance? (short video)
- BFSG University (webinars and short videos covering a variety of financial planning topics)

Other Resources

- The Complicated Risks and Rewards of Indexed Annuities
- What is a Variable Annuity?

THANK YOU

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BFSG Disclosure

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