
It's Your Money!

Investment World

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

Michael Allbee, CFP®

Principal, Senior Portfolio Manager



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

- Michael is a member of the Investment Committee. His main responsibilities include managing and monitoring client portfolios, researching and monitoring investments, and reviewing portfolios with clients. He has been with Benefit Financial Services Group (BFSG) since 2007. He became a principal at BFSG in 2020 and serves as BFSG's Chief Compliance Officer.
- Michael has a Bachelor of Science degree in Psychology from the University of California, Los Angeles (UCLA). He is a Certified Financial Planner™ (CFP®) professional and is a notary public.
- When not working with clients, Michael can be found having fun playing sports with his 2 sons (especially basketball), or in the mountains or at the beach with my wife and family. He loves to travel and have new experiences or help others through volunteer service.

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](https://brokercheck.finra.org) to do background check on any prospective advisor

Life Insurance: Term vs. Permanent

Term

- Covers for a specific term
(Usually between 10 to 20 years or until age 65)
- Premiums are relatively lower but increase after term expires (Annual Renewable Term, Level Term, Decreasing Term)
- Expires with no cash value, all of the premiums go to securing a death benefit to beneficiaries
- No flexibility, no ability to borrow against policy or to withdraw money
- Very inexpensive at young ages



Permanent

- Covers for the entire life
- Premiums are higher but remain level for lifetime (vary from single premium to level premiums)
- Build a cash value from a percentage of premiums
- Cash value grows without being taxed
- Receive interest on the cash value
- Flexibility including ability to borrow against your policy
- 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

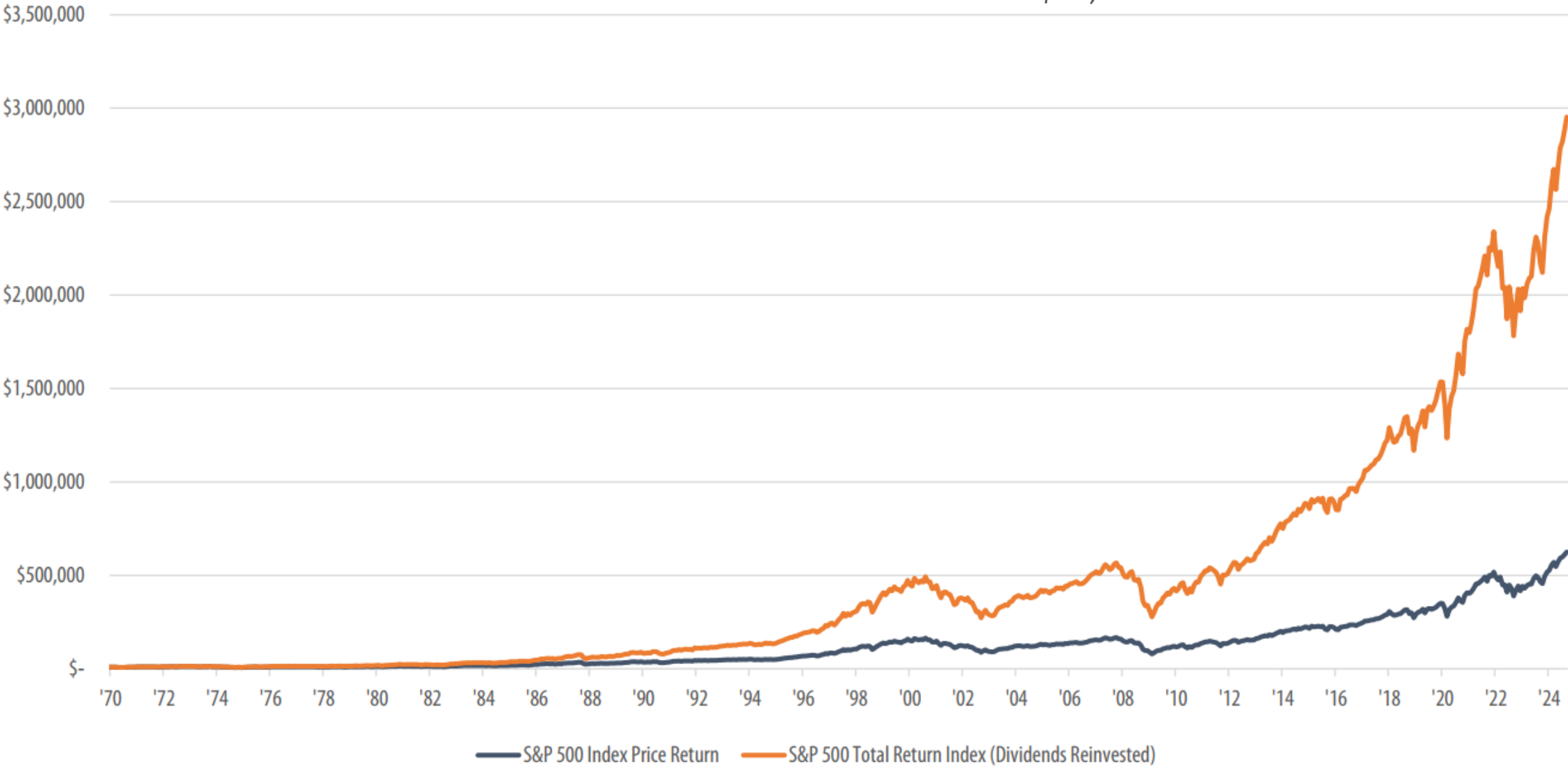
Monthly Cap 1.00%

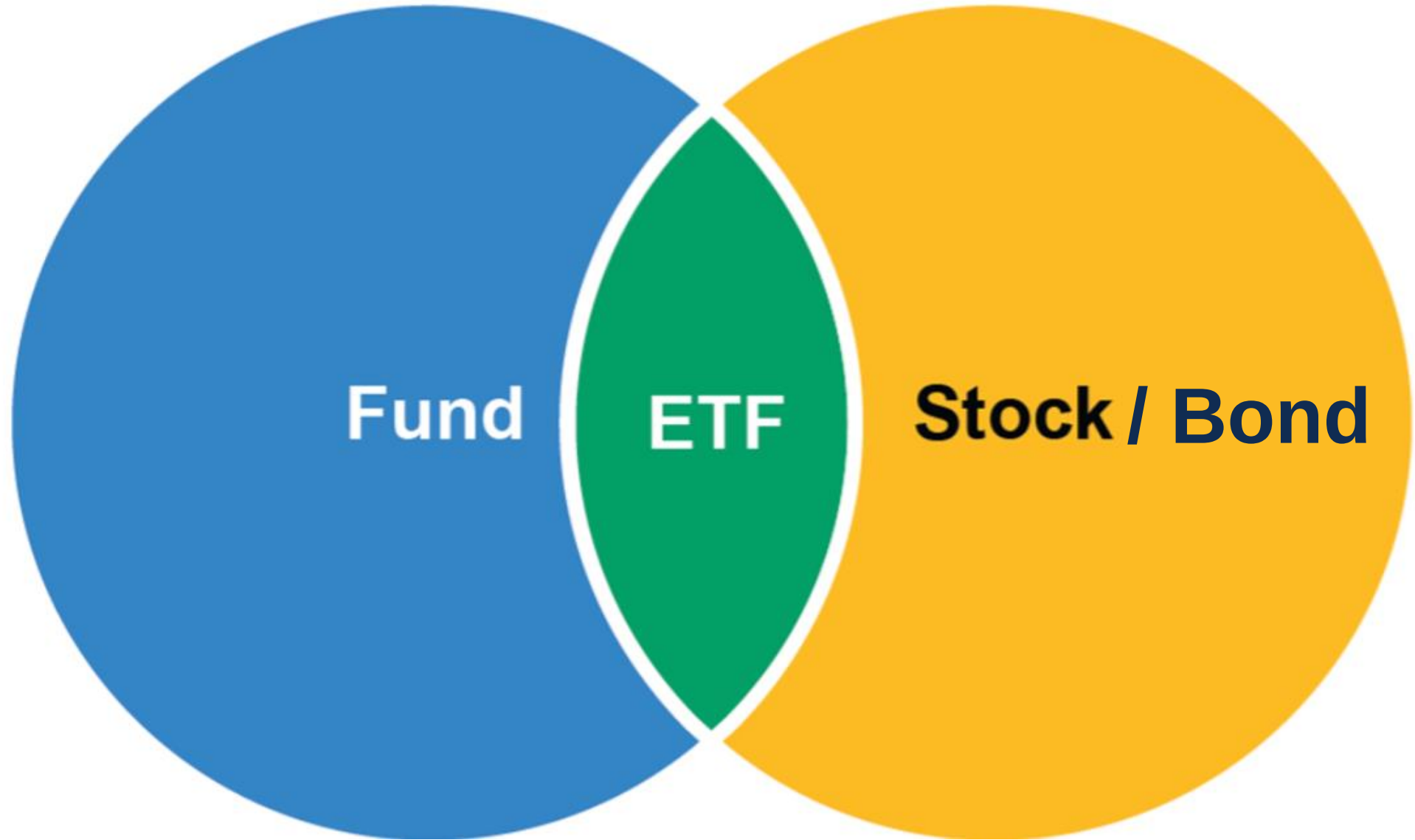
Policy Month	Monthly Index Rate	Capped Monthly Rate
1	3.285%	1.000%
2	-1.340%	-1.340%
3	4.981%	1.000%
4	1.968%	1.000%
5	2.901%	1.000%
6	2.797%	1.000%
7	-10.678%	-10.678%
8	-10.529%	-10.529%
9	8.339%	1.000%
10	10.855%	1.000%
11	-1.522%	-1.522%
12	6.548%	1.000%
Sum of Capped Monthly Rates:		-16.06%

Annual Index Rate: 0.00%

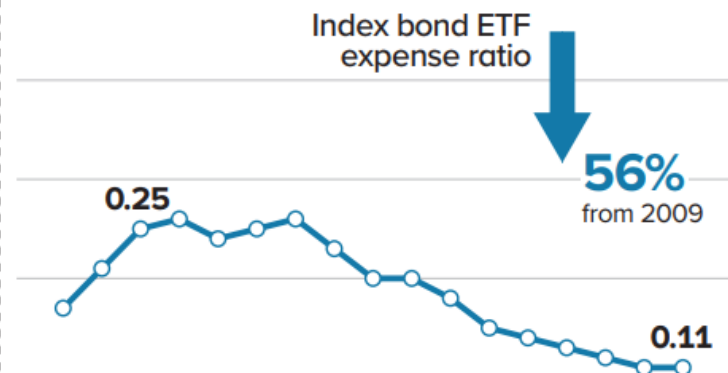
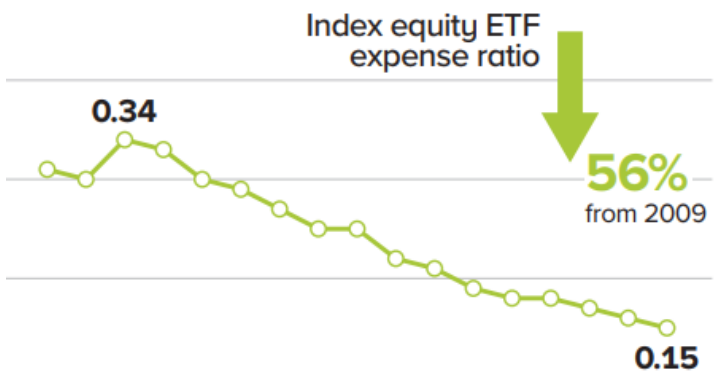
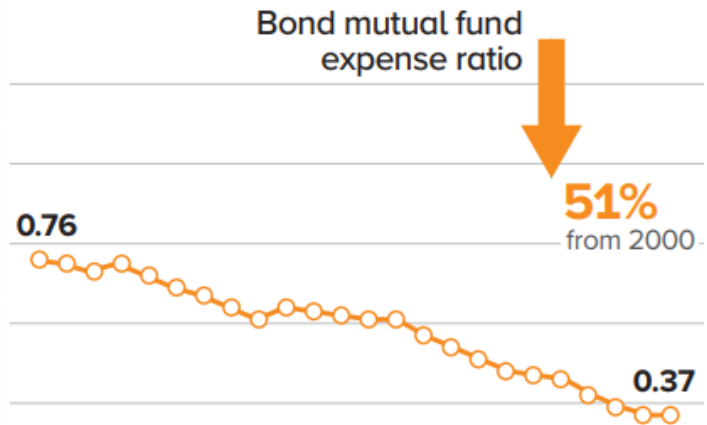
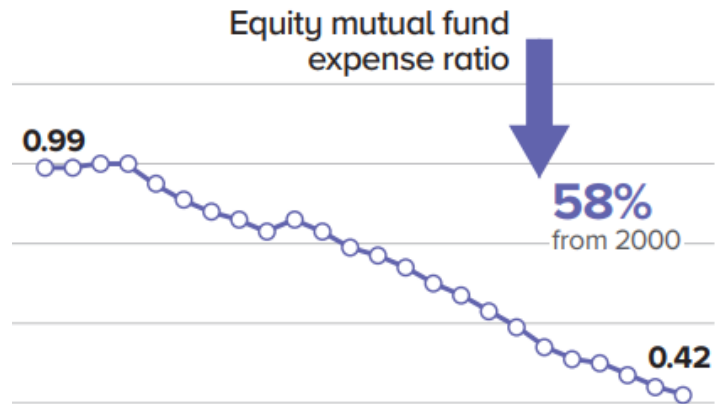
Impact of Dividends

Growth of \$10,000 in the S&P 500 Index Since 1970





Fund Expenses



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

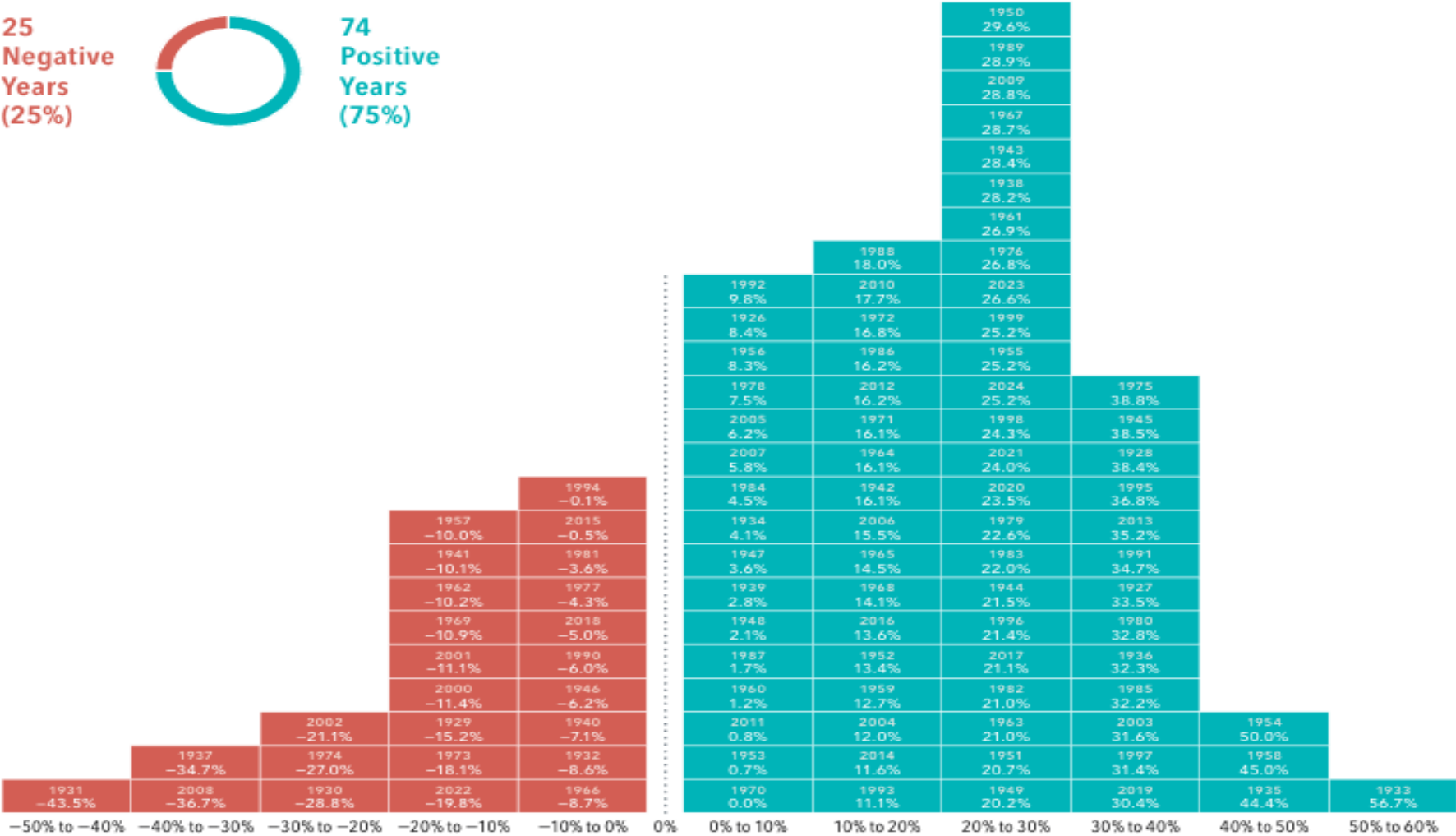
Example: Invest \$100,000 and then pay annual fee of \$2,000



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

Rewarding Distribution of U.S. Market Returns

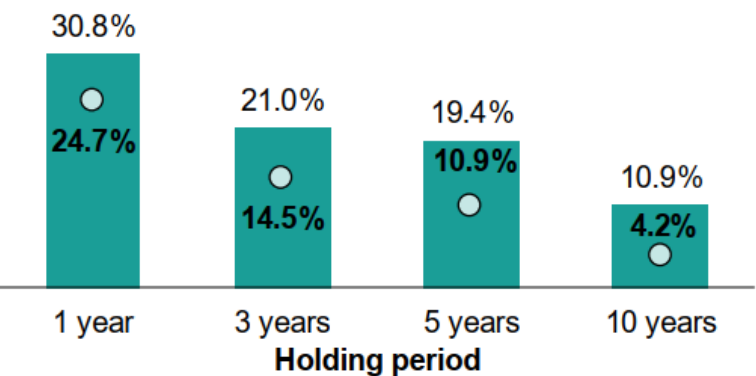
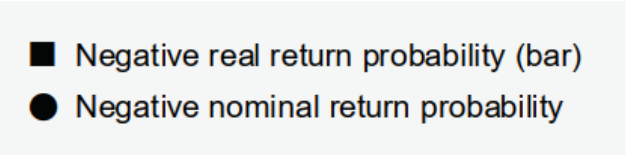
CRSP 1-10 INDEX RETURNS BY YEAR
1926–2024



Buy and Hold

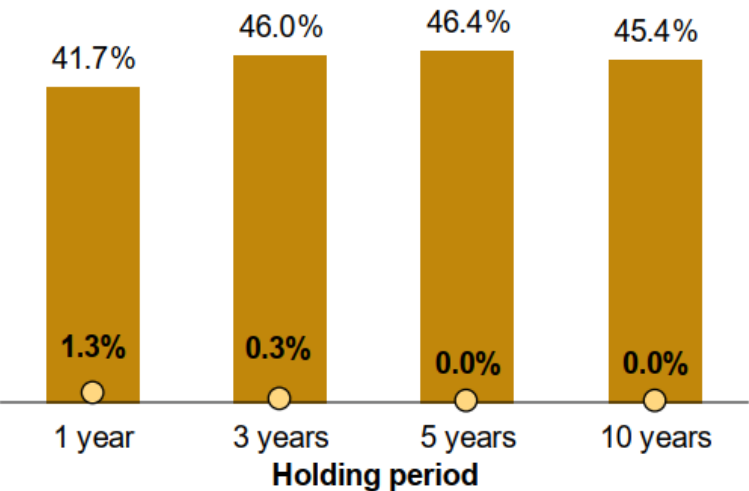
Historical probability of negative return for various holding periods

100% stocks



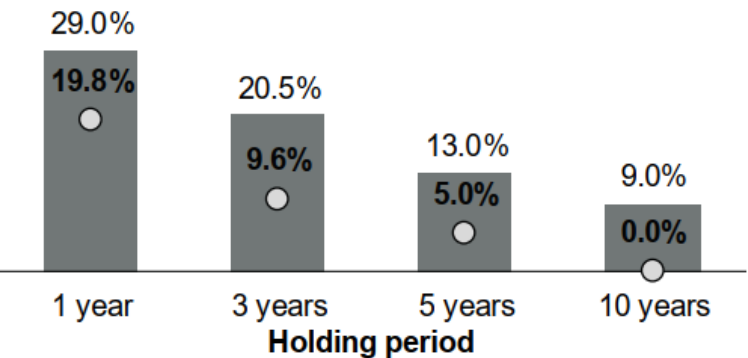
100% Treasury bills

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



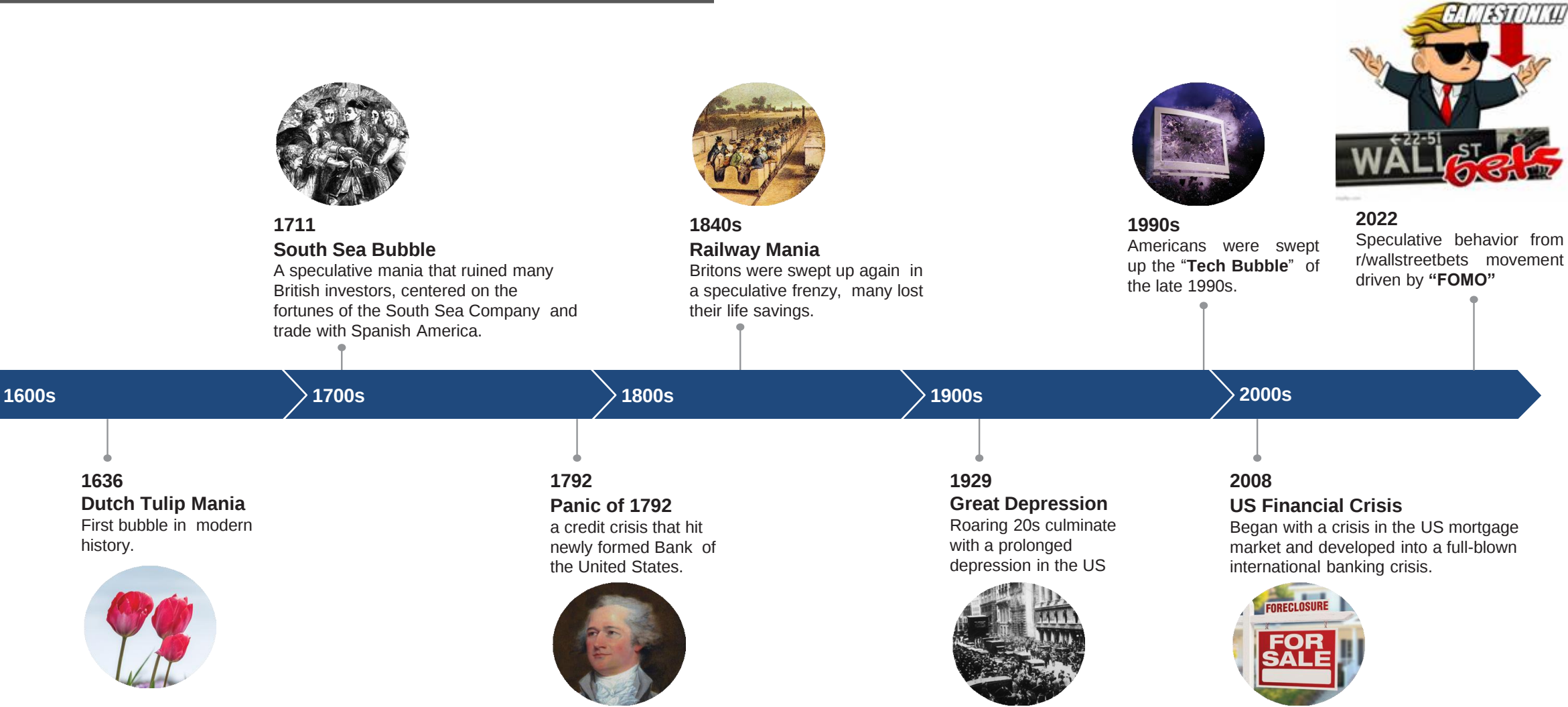
60% stocks/40% bonds

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”



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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

Benefit Financial Services Group
contactus@bfsg.com
714-282-1566

BFSG Disclosure

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