SUMMER 2016

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

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Suitability vs. Fiduciary Standards

Does your financial advisor have your best interest in mind?

There is legislative debate whether all financial advisors should be legally required to put their clients' needs before their own. Wait a minute! Aren't all financial advisors already required to do this? The answer may surprise you.

The answer is no. Under current law, the majority of advisors do not have an obligation to place your best interests first. Agents and brokers are merely required to make recommendations that are suitable at the time of sale. In contrast, registered investment advisors (RIAs) are required to act as a fiduciary by avoiding conflicts of interest, operating with full transparency, and maintaining an ongoing obligation to monitor the investments and the client's financial situation.

Let's illustrate this difference. Let's say you are middle aged and describe yourself as a long-term investor who is not bothered much by daily market volatility.

> An agent or broker operating under a suitability standard is required to make recommendations based on what is suitable at this point in time. He or she is required to hand you a prospectus detailing if the investment product is operated by the company that employs him, that he will earn a commission, and whether an ongoing commission will continue to be paid to him in the future. Once you leave the agent's or broker's office, there is little further legal obligation to monitor your investment or financial situation.
>
> A fiduciary advisor, on the other hand, must disclose all conflicts of interest and make recommendations believed to be in your best interest and has an ongoing duty of care to monitor your investments and financial situation.

Under the suitability standard, the financial-planning process can begin and end in a single meeting. For fiduciaries, that first client meeting marks only the beginning of the advisor's legal obligation.

On April 6, 2016, the Department of Labor (DOL) released a new and lengthy 1,000-page fiduciary rule impacting retirement plans and IRAs. The original intention was to protect retirement funds from the more expensive, non-fiduciary investment products, which hinder people's ability to achieve financial independence for retirement. We believe this was commendable. However, in the eleventh hour before its release, the DOL rule was watered down, permitting firms to continue selling higher-commission proprietary investment products.

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JENTNER WEALTH MANAGEMENT

THE PRESIDENT'S WORD

Financial Independence

Advice for leaving a financial legacy.

The United States of America historically has provided opportunities for so many people. But here are two alarming statistics:

1. During the past 50 years, U.S. taxpayers spent $22 trillion on anti-poverty programs. Adjusted for inflation, this is three times the cost of all U.S. military wars since the American Revolution. The Census Bureau reports that there has been essentially no net reduction in poverty levels during the past 50 years.[1]
2. 90% of family wealth is dissipated within three generations.[2]

How alarming! Restated:

1. Our well-intended government welfare programs have not reduced the number of people living in poverty.
2. A majority of financially independent families do not teach their children and grandchildren how to remain financially independent.

Each generation must learn the core values of a good education, of being industrious, of delayed gratification, and of being good financial stewards. Don't take this for granted. Good financial stewardship plays a large role in obtaining financial independence.

No matter who we are or where we live, it can be difficult to raise children who appreciate the value of a dollar. Some believe we live in a country that conspires against waiting.[3] Whether a child lives in a wealthy suburb or in poverty, so many are not learning the core values of working hard and being wise with one's money.

Making good financial decisions plays a huge role in pursuing financial independence. It is foundational. No matter what a person wants to do in life—a teacher, a scientist, an accountant, a pastor, an artist, or an engineer—getting a good education, learning to work, and learning to live within one's means are critical.

In the United States, it is relatively easy for kids to get what they want without having to earn it—without having to sweat it out. Can we reverse this trend before our child or grandchild ends up an entitled adult?

1. Explain to your kids why they may not be able to have certain things immediately. Share your story: how you needed to delay purchases, how you needed to work extra hours, how you needed to save to get what was important to you.
2. Require your kids to earn money through chores to help them learn to wait while learning the value of work and money.
3. Help your children live within a budget. Teach them how to prioritize their purchases.

The goal is to instill gratitude—not attitude—in our children. Teach them the value of work and deferred gratification—not entitlement. This may be the most important financial legacy for us to leave our children.

1. The Heritage Foundation
2. *Kiplinger's Personal Finance Adviser;* October 2015
3. *The Opposite of Spoiled: Raising Kids Who Are Grounded, Generous, and Smart About Money;* Ron Lieber

Bruce Jentner, CFP®, President

Suitability vs. Fiduciary Standards

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Under the new regulations, brokers will have to demonstrate that these products are in the best interest of their clients, using newly required disclosures under the so-called "best interest contract exemption."

Sound confusing? On top of that, even though brokers will be required to subject themselves to the best-interest rule when providing advice for retirement accounts, they will be free to continue selling higher-commission, proprietary products in non-retirement brokerage accounts using the less stringent suitability standard.

Investors should determine if they want a sales recommendation or ongoing fiduciary financial advice. Do not take anything for granted. We expect brokerage firms and brokers to increase the use of fee-based relationships, which give the appearance of fee-only fiduciary advice but which fall short of a true fiduciary standard of care. Work with a fiduciary advisory firm that is legally required to act as your fiduciary 100% of the time.

Safety and Growth—Finding the Right Balance

Nobody wants a permanent loss of their investments. Therefore, many people seek safe havens with guaranteed returns. Is this wise?

Guaranteed returns offered by FDIC-insured bank deposits or insurance-company guaranteed returns may be exactly what you need to sleep at night. Every one of us has an emotional tipping point for risk. For some, that tipping point is very low. For others, it may be relatively high. Whatever your risk tolerance, you must not ignore your personal tipping point for risk.

Here's the problem. There is more to risk than just loss of principal. There can also be a loss of purchasing power due to inflation. There may be risk of loss due to taxes. There may be risk of loss because of bad business conditions.

One method to mitigate risk is portfolio diversification. In other words, don't put all of your eggs into one basket. All investment professionals agree that diversification is necessary for successful investing. The problem is there is wide disagreement as to how to accomplish this.

You give something up with diversification. It is virtually impossible to hit a home run with a diversified portfolio. However, you reduce your odds of striking out if you diversify. Even if you do not hit home runs, if you reduce the probability of striking out and hit singles and doubles (maybe even an occasional triple), you stand a good chance of advancing more players across the plate over nine innings.

Regardless of how well you diversify, you cannot eliminate risk. However, history demonstrates that diversified portfolios have provided opportunities to earn favorable long-term returns with lower risk. The benefits of diversification may not be realized immediately; it generally takes time.

Jentner Wealth Management's client portfolios are generally invested globally in stock, bond, and alternative asset classes in 42 countries on six continents. Although it may be difficult to predict where the sun will rise economically in the world each year, the odds are good with this level of diversification that you will participate in the economic opportunities wherever they may develop.

Matthew R. Jentner, CPA, CFP®
Director of Wealth Management

Regulators Focus on Excessive Fees

Earlier this year, regulators moved against firms they believe have overcharged their customers. FINRA, the broker-dealer regulator, levied a $350,000 fine against Fidelity Investments for inappropriately charging more than 20,000 clients $2.4 million in transaction fees in its Institutional Wealth Services Group. In another case, the SEC determined that the private equity firm KKR & Co. overcharged its clients. The firm was required to refund the money.

The number of FINRA arbitration cases against variable annuities remains high. Variable annuities remain "very much a focus," according to FINRA Chairman and Chief Executive, Richard Ketchum. "Annuities continue to get more complex," and the risks in selling them to senior investors remain substantial, he added.

Apparently the regulators are becoming more aware of how investors are hurt by high fees. They are taking a hard look at the fees charged by various institutions.

What is the answer? How should you proceed?

When working with a financial advisor, a broker, or an insurance agent, ask for a written summary of all fees and expenses. There is no such thing as a free lunch. Whoever you choose to work with needs to be paid. We believe the key is requesting a full and transparent written disclosure of all fees and costs. Then you can make an informed decision. An experienced, knowledgeable, competent advisor is worth paying. Just make sure you know what you are paying so you can determine if you are comfortable with the arrangement.

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Powers of Attorney

We all have different goals. But virtually all of us have at least two goals in common: a desire to be independent and to be in control. But it is prudent to acknowledge that a time may come when we need assistance with financial and health-care decisions.

Because no one has discovered the fountain of youth and because accidents do happen, it is important to determine in advance who you trust to help you with financial and health-care decisions if you are unable to make them yourself. You can identify and authorize this person in a document called a durable power of attorney.

Without it, if something happened that prevented you from making your own decisions, your family may have to petition a court for guardianship, which can be costly and time consuming. You might say, "The chances of that happening to me are so remote, I will not worry about it." My response is, "Yes, thank God it is remote, but if it happens to you, it just became 100%." To lose control of health and financial decisions by forcing your family to petition a court for guardianship is not ideal. Instead, determine who you trust, and use a durable power of attorney to authorize them to make the medical or financial decisions without requiring cumbersome court supervision.

There are typically two types of durable powers of attorney: one for health-care decisions and one for financial and property decisions. You may prefer to name a different person to represent you in each area.

We encourage you to contact your attorney to get this done. If you already have powers of attorney that were executed years ago, you may want to contact your attorney to refresh them. Health-care providers and financial institutions may be reluctant to honor older powers of attorney.

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