BREAKWATER CAPITAL'S GUIDE TO

Working with an Advisor

BREAKWATER
CAPITAL

Do You Need a Financial Advisor?

Your Answers to the Following Questions Will Help you Decide:

01 ***Do you have a high level of financial expertise?*** Financial planning involves a lot more than just selecting the right investments. It's a complex process that requires specialized expertise in areas like taxes, insurance, investments, retirement, income, education and estate planning, as well as painstaking attention to detail.

02 ***Do you have time to effectively manage your financial affairs?*** To effectively manage your financial affairs, you need to know what's happening in the global economies and financial markets, have time to research and evaluate new investment opportunities, insurance products and financial strategies, know how to select the best, most appropriate investments and insurance products for your individual needs and objectives, monitor your investments, stay on top of any changes in tax laws that will affect your financial planning and a host of other complex, time-consuming tasks. Anyone who thinks they can effectively manage their financial affairs in one or two hours a week is mistaken and potentially jeopardizing their family's financial security.

03 ***Do you believe you can produce the same results as an experienced, trustworthy professional?*** It's true that many investors produce better returns than bad advisors. But very few produce better returns than high quality professionals. At our firm, we employ unique, innovative, historically effective and time-tested investment strategies to meet our clients' return objectives and help them meet their financial goals. We also provide our clients access to unique investments and investment strategies that most people (including financial advisors) had never heard of, some of which are not normally available to retail investors. Beyond investing, we have the specialized financial expertise required to help our clients work towards protecting and preserving their life savings, minimizing taxes, increasing the magnitude and longevity of their wealth and ensuring their life-long financial security.

If you answered "no" to any of these, then you may benefit from working with an experienced financial advisor. Remember: it's often easier and more effective to hire an experienced, trustworthy professional than to spend thousands of hours trying to learn the professional's job yourself. You just have to make sure you hire the right professional.

What to Look for in an Advisor

- ARE THEY INDEPENDENT OR CAPTIVE?
- WHAT LICENSES DO THEY HAVE?
- HOW ARE THEY COMPENSATED?
- ARE THEY A FIDUCIARY?

** These answers greatly affect the advice you receive.*

What Financial Advisors Do

Most people are not financial experts. They know that planning is vital, but don't have the time, the desire, or the expertise to make tough financial decisions and effectively manage their financial resources. As a result, they are often unsure about whether they are doing the right things to meet their financial goals and secure their family's financial future.

How about you? Are your financial affairs in order or are you overwhelmed by their complexity? Do you have time to keep up with each new tax law, investment opportunity, insurance product and financial planning strategy? Are you confident that you are on the road to financial independence or unsure about your family's financial future? Perhaps you could benefit from working with a financial advisor.

A FINANCIAL ADVISOR CAN SIMPLIFY YOUR LIFE AND PROVIDE YOU PEACE OF MIND BY:

- Helping you make educated financial decisions
- Helping you organize and manage your financial affairs
- Providing possible solutions for your financial concerns
- Helping you develop and implement a plan to attempt to meet your life goals and aspirations
- Developing plans with a focus on your family's long-term financial security and independence
- Serving as the quarterback of your team of legal and financial advisors
- Providing and/or supervising all aspects of your wealth management and financial planning needs

In addition, your advisor can help you understand the advice you receive from your accountant, attorney and other advisors, and coordinate it with our own financial planning and investment management expertise, so that you'll feel confident and have a clear direction to follow. If needed, they can also recommend experienced legal and financial professionals to meet your personal needs and objectives.

By working with a financial advisor and relying on his or her knowledge, experience and expertise, you'll spend less time laboring over your financial affairs and more time doing the things you enjoy most in life. You'll know that your affairs are in order and that your family is financially secure; and you'll feel confident about your financial future.

Choosing the Right Advisor?

A good advisor may be able to help you minimize taxes, improve your investment returns, meet financial goals, maximize your financial resources, ensure that your financial affairs are in order and provide you comfort, peace of mind and life-long financial security. On the other hand, a bad advisor can cost you a fortune in excess or unnecessary taxes and jeopardize your family's long-term financial security. That's why it's critical that you know what to look for when choosing a financial advisor.

THE TWO MOST COMMON TYPES OF ADVISORS

There are basically two types of financial advisors: Fiduciary Advisors and Sales Representatives. Each has its own unique characteristics.

FIDUCIARY ADVISORS	*VS.* SALES REPRESENTATIVES
Fiduciary Advisors are licensed as a Registered Investment Advisor (RIA) with the SEC and/or the states in which they do business. They are held to the highest ethical standards and are required by law to put their clients' interests ahead of their own. They are also required to disclose any potential conflicts of interest at the outset of their advisor/client relationship and on an ongoing basis. Most Fiduciary Advisors are compensated with fees to help their clients meet their financial goals. Most charge a flat fee for financial planning services and an annual asset-based fee (assessed quarterly) for investment management. By charging an asset-based fee for investment management, the Fiduciary Advisor's compensation is closely tied to the performance he delivers for his clients in accordance with their objectives, risk tolerance and investment time horizon. Most Fiduciary Advisors are independent and do not sell proprietary financial products. As independent advisors, they are free to recommend whatever products, services and strategies they believe will be most effective in helping their clients meet their financial goals. They also have greater liability for the quality of their advice.	Sales Representatives are stock brokers, insurance agents, and real estate agents who most often work for large, well-known banks, brokerage firms and insurance companies. They are paid commissions for selling you stocks, bonds, CDs, mutual funds, insurance, real estate and other financial products. Sales Representatives are usually "captive" which means they represent the company, not the client. In addition, they are not held to the same high ethical standards as a Fiduciary Advisor.

The Different Types of Advisors

PROFESSIONAL DESIGNATIONS

Before we explain the roles of certain financial professionals, it is important to note that many titles imply a certain level of expertise or education. However, the fact is that individuals can use a number of titles without holding any professional designation. In other words, you can call yourself an Investment Consultant without having any specialized education, training or expertise.

FINRA (the Financial Industry Regulatory Authority) duly warns consumers on its "Understanding Professional Designations" Web page to "be aware that Financial Analyst, Financial Advisor, Financial Consultant, Financial Planner, Investment Consultant or Wealth Manager are generic terms or job titles, and may be used by investment professionals who may not hold any specific designation." If you are unsure about a potential professional's experience, training and financial designation, ask him or her.

FINANCIAL PLANNERS

Financial planners help individuals and corporations strive to meet their short- and long-term financial goals by evaluating each client's current financial status and developing a program to meet his or her objectives.

Financial planners often have a specialty (or specialties) such as the following:

- ASSET ALLOCATION
- ESTATE PLANNING
- INSURANCE
- RETIREMENT
- RISK MANAGEMENT
- TAX PLANNING

A person does not need any specialized training or licensing to be called a financial planner. Many financial planners, however, do hold credentials that attest to their experience and education. The Certified Financial Planner Board of Standards, for instance, certifies candidates who successfully pass extensive exams on topics including asset protection planning, taxes, insurance, estate planning and retirement. Certified Financial Planners are also required to maintain their certifications by completing yearly continuing education programs. CFP® holders are held to certain fiduciary responsibilities. The CFP board's Standards of Professional Conduct states, "A certificant shall at all times place the interest of the client ahead of his or her own. When the certificant provides financial planning or material elements of financial planning, the certificant owes to the client the duty of care of a fiduciary as defined by the CFP Board." CFP® professionals may charge for their services by fee or by commission.

You may pay a fee-only CFP® an hourly rate, a flat rate or a percentage of your assets and/or income. Because a fee-only CFP® does not receive any commission on products sold, many consider their advice to be unbiased and in the client's best interest. Commission-only Certified Financial Planner™ certificants, on the other hand, earn a commission on the sale of certain products. This payment structure creates a conflict of interest because the CFP® may suggest a product that provides a better commission, but that is not appropriate for you. They can also charge a combination of fees and commissions, including a flat fee for creating a financial plan.

STOCKBROKERS

Stockbrokers, also called registered representatives, are regulated professionals who make trades on behalf of retail and institutional clients in exchange for a fee and/or commission. The Securities and Exchange Act of 1934 defines a broker as "any person engaged in the business of effecting transactions in securities for the account of others." FINRA further clarifies that "A broker-dealer is a person or company that is in the business of buying and selling securities – stocks, bonds, mutual funds and certain other investment products – on behalf of its customers (as broker), for its own account (as dealer), or both. Individuals who work for broker-dealers – the sales personnel whom most people call brokers – are technically known as registered representatives."

You will typically pay a stock broker a commission on each transaction made on your behalf. Stockbrokers are required to make investment suggestions that are in the best interest of each retail client (recommendations to other types of clients need only be "suitable") based on each client's income, portfolio, risk tolerance, investment objectives and overall financial situation.

A Broker-Dealer Must

- BE REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC)
- BE A FINRA MEMBER

A Registered Representative Must

- PASS QUALIFYING EXAMS: THE SERIES 7 (GENERAL SECURITIES REPRESENTATIVE) AND SERIES 63 (UNIFORM SECURITIES AGENT STATE LAW EXAM)
- BE EMPLOYED BY OR ASSOCIATED WITH A BROKER-DEALER FIRM

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INVESTMENT ADVISORS

Investment advisors are individuals (known as Investment Advisor Representatives, or IARs) or companies that provide advice about securities to clients. Investment advisors receive compensation for providing advice regarding various investment products including stocks, bonds, mutual funds and exchange-traded funds (ETFs). Investment advisors must be registered with the SEC or a state securities regulator, depending on the value of client assets under management.

Investment Advisors Include the following:

- ASSET MANAGERS
- INVESTMENT COUNSELORS
- INVESTMENT MANAGERS
- PORTFOLIO MANAGERS
- WEALTH MANAGERS
- FINANCIAL ADVISORS

IARs must pass the FINRA Series 65 exam, or the Series 7 exam in conjunction with the Series 66 exam or, in some cases, they may qualify through another designation such as Chartered Financial Analyst or Certified Financial Planner.. Although the Investment Advisors Act does not call an advisor a fiduciary, the U.S. Supreme Court has said that investment advisors are fiduciaries with "an affirmative duty of 'utmost good faith and full and fair disclosure of all material fact,' as well as an affirmative obligation 'to employ reasonable care to avoid misleading' clients."

There are several methods by which you might pay an investment advisor:

- AN HOURLY FEE
- A FIXED FEE
- A COMMISSION ON THE PRODUCTS THEY SELL TO YOU (IF HE OR SHE IS ALSO ASSOCIATED WITH A BROKER-DEALER)
- A PERCENTAGE OF THE VALUE OF THE ASSETS THEY MANAGE FOR YOU
- A COMBINATION OF THE PREVIOUS METHODS

THE BOTTOM LINE:

Know What You're Paying and Why

Stockbrokers, investment advisors and financial planners come from a variety of educational and professional backgrounds. Before hiring a professional, it is important to inquire about his or her credentials, clarifying both what the designation means and how it was earned. You can also contact that issuing organization to confirm that the professional earned the credential and that he or she is in good standing.

How Advisors Get Paid

More Important than Fees, *the Relationship*

What you pay your advisor is extremely important, but the relationship you have with you advisor is even more so. The foundation of a great advisor-client relationship is open communication and trust. It's crucial that an advisor understands your situation and planning needs and that you feel comfortable trusting him or her with your money and financial plan. But it's also crucial that advisor compensation is clearly communicated and fair to both parties. This means talking through fees with your advisor to get total clarity on what services are being provided and how the advisor is being compensated.

Here's a Basic Overview:

COMMISSION:

A commission is a service charge based on the sale of an investment product. A commission can take many different forms. It may be a commission paid up front on the purchase of a mutual fund, a surrender charge upon the sale of an annuity or a commission upon the sale of an insurance product, among others. Regardless of how the commission is received, the common characteristic is that it is paid from the company offering the investment product to the advisor as a commission in exchange for making the sale.

ACCOUNT FEE:

An account fee is taken as a percentage of your account value, regardless of what investments you hold within the account. Rather than being based on the sale of an investment, an account fee is based on the management of the portfolio. The investments within the account will have their own separate costs, whether those are fund fees or transactions fees, but advisors will often use low-cost funds within fee-based accounts to keep expenses down.

FLAT-FEE:

This is a fee paid directly to the advisor for providing a specific service. A flat fee is not tied to the sale of any product or for direct investment management.

HOURLY RATE

This is a rate charged for an advisor's time, as opposed to investment management or specified service provided. Regardless of the duties performed, the fee is charged per hour of work.

RETAINER

A retainer fee is charged either quarterly or annually for a financial planning relationship, regardless of time, services or investments used by the advisor.

Strengths and Weaknesses

Broadly speaking, no form of compensation is inherently right or wrong. Advisors have given quality service and a fair price using each form. Some advisors also can, and have, used all of these methods for personal gain. Hence the reason it's critical that you trust your advisor and he or she is open and honest about compensation structures. That doesn't mean that each method doesn't have strengths and weaknesses.

Compensation Methods

You've probably heard some jargon when it comes to advisors and their fees, such as fee-only, fee-based and commission, but it may not be clear what the real distinctions are.

COMMISSIONS

Commissions, for example, are good for when there is very low turnover (switching of investments) inside an account. One downside is that if advisors trade commission-based products often, they can generate a lot of commissions without much payoff for the client. Excessive use of this strategy is referred to as "churning" and is illegal. Also, because regulations on commissions only surround the sale of the product, there is no legal obligation to provide management of the account or client service once the sale is completed unless such ongoing services are agreed to, in writing, between the financial professional and the investor.

FLAT-FEES AND RETAINERS

Flat fees and retainers are good in that you know exactly what you are paying and may be able to work with the advisor in determining the right amount. However, because these fee amounts are ultimately under advisor control, advisors may be charging a fee that is too high given either the services provided or how much they are truly worth.

ACCOUNT FEES

Account fees, as a percentage of assets, are often used when it comes to investment options and trading frequency. Managers can trade more often without investment options, since they are not restricted to investments that pay them commissions. But there are downsides to this model. An annual account fee is a pretty significant drag on returns, especially if the portfolio is underperforming relative to its benchmarks. Also, because the advisor's compensation is dependent upon the size and growth of your portfolio, care must be taken to ensure the advisor isn't taking too much risk in your portfolio to make money, or be too cautious in order to protect the assets under his or her management. The advisor also may not recommend you withdraw money from those accounts, even when it makes sense, in order to keep as much money in the account as possible. Many advisors opt for an hourly rate to avoid the conflicts inherent in the above models, which is a big advantage. However, advisors may be prone to billing too many hours relative to the amount of work necessary, or simply set an hourly rate that is not commensurate to the level of service being provided. Clients may also resist calling an hourly advisor because they don't want to be charged for the call.

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> *Advisors may stick to just one of these options but many choose to employ a combination of fee types and let the specific situation determine the compensation form.*

THE BOTTOM LINE:

Know What You're Paying and Why

It can be daunting to try and determine when you are getting a fair price for an advisor's service. That said, the decisionultimately rests with you. While it's important to understand the different compensation structures, it's most important you understand the way your advisor is compensated and why he or she is using that structure. If anything is unclear or you aren't comfortable with how much you are paying or will pay, ask your advisor questions about what he or she charges and why. It's critical that everyone be on the same page so that you can focus on working toward your financial goals.

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...about a broker's experience. BrokerCheck provides an overview of a broker's work history, as well as brokerage firm history.

...about what a broker or brokerage firm is able to do. Brokers and investment advisers are qualified to perform certain tasks for clients, based on the exams they have passed and state licenses they hold. Generally speaking, individuals and firms must register in each state where they have customers.

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Please take a moment to search our firm or Joshua Chapin.
Client referrals available upon request.

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