FINANCIAL MANAGEMENT STRATEGIES
Solutions Today for a Prosperous Tomorrow

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Greetings!

As we begin the fall season of crisp autumn afternoons, in the first article I lend a voice to the national discussion on how financial advice for individuals and institutions should be provided. With an eye towards the end of the year, the second article in this month's Foresight provides you a year-end checklist to keep your financial house in order. Each month I share thoughts on various topics in the world of personal finance, investing, economics, and business through my writings. May you find my musings informative, thought provoking, and enjoyable.

Thoughtfully,

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How Independence Can Protect Your Portfolio

Times have changed - and so have financial advisors. Many people question the increase in federal regulation in general and specifically in the financial & banking sectors, yet recent accounts of the business practices of several companies, most notably Goldman Sachs, have raised intense questions for clients' about the relationship with their advisor. Today, people don't want financial advice from a salesman. Instead, they want a relationship with a financial professional who is trustworthy, thoroughly educated, candid, and who provides "un-conflicted" personalized financial consulting for each client.

That search often leads them to a fee-based or fee-only financial advisor or a Registered Investment Advisor.

A reassuring alternative to Wall Street. A paradigm shift is happening, and the traditional brokerages and other large institutions that provide financial services are lagging. While old-school "stock brokers" have gone the way of the wooly mammoth, you still have a sales-first mentality in place at big banks, Wall Street brokerages and insurance companies. If you're employed by one of them, the mantra is simple: make a sale, and earn a commission also known as "eat what you kill".

As they try to serve their clients, these "brokers" or financial advisors regularly are placed in a compromised position as they contend with sales quotas and the inherent potential for conflicts of interest. It wears on them: a 2010 survey revealed that only 15% were "very satisfied" at their firms and another 20%

wanted to leave within two years.[1] The recent legal settlement between Wall Street's premiere financial company Goldman Sachs and the SEC, where Goldman paid a record $550 million penalty for its "mistake" by providing clients with "incomplete information in marketing material" (Goldman's words) is an example of these potential conflicts.[4] The significance of this case, besides the dollar amount of the settlement, was that the "mistake" involved clients purchasing a product which Goldman sold for a commission. Goldman neglected to tell the purchasers that another party helped design the product and benefited if the product were to decline in value! Oh, and the other party, John Paulson, allegedly made as much as $1 billion from the decline in value of the product he helped design for Goldman.[5]

Given the tarnished reputations of so many giant banks and brokerages, it isn't surprising that consumers are turning elsewhere for financial advice. Here are three popular destinations.

A **fee-based financial advisor** is structured to promote earning income from fees for managing clients' investments instead of commissions on selling specific products. There is more of an emphasis on advice than traditional brokers, however these financial advisors may still derive significant compensation from the sale of annuities, life, disability, or other types of insurance products with high commissions.

Fee-only financial advisors earn no commissions at all. They derive 100% of their income from client fees, annual management fees, or hourly or per-project consulting fees. With this compensation arrangement, you know that a fee-only advisor is available to help you address myriad issues in your financial life, not simply those that could lead to a commission.

A **Registered Investment Advisor (RIA)** usually works to manage the assets of high net worth investors. An RIA receives management fees and does not receive commissions. The management fees usually represent a percentage of the assets a client has invested. Additionally, as a part of the consultative nature of the client relationship, annual retainer or per-project financial planning fees may be included as well. RIAs have to register with the Securities and Exchange Commission and any states in which they operate.[2] They also are required to conduct business with their clients on a **fiduciary basis**, *which simply means that they place the best interest of the client above the firm's interest at all times.* Individuals, couples, families, businesses, and institutions with wealth management concerns often turn toward RIAs.

Even as the market has struggled since the end of 2007, independent Registered Investment Advisors have gained a greater share of assets under management in the U.S.[3]

People need unbiased advice. An independent, fee-only financial advisor or RIA also has freedom - freedom to choose the most appropriate products and services for your risk tolerance and investment goals. That's probably the #1 reason why people and institutions seek an independent financial advisor. They know that the advice they receive is not influenced by sales incentives or directives. There is often a candor to the discussion that may not always be present at a bank or a brokerage.

People want more investment choices. An independent financial advisor is free to offer ideas and investment options from every available company, rather the investments of a single company who is often their employer. In addition, that independent advisor can unhesitatingly tell you if an investment is or isn't appropriate for your financial situation.

This is the age of independence. When it comes to the financial future, no one wants to be "sold" - just advised. Thus the SEC is in the process of making a decision if all firms and their financial advisors must conduct business as fiduciaries whenever they seek to provide "advice" to their clients. Because after our experiences during the Tech bubble, corporate fraud scandals (Enron, WorldCom, Tyco, etc.), real estate bubble, great recession, and of course the Madoff scandal, your right to demand for the kind of relationship where the financial advisor puts the client relationship first.

Citations

1 - bankinvestmentconsultant.com/news/pirker-aite-wirehouse-advisors-2667209-1.html [6/1/10]
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3 - fa-mag.com/fa-news/5548-independents-make-headway-despite-downturn.html [5/10/10]
4- http://www.bloomberg.com/news/2010-07-20/goldman-sachs-settlement-with-sec-for-550-million-approved-by-u-s-judge.html [7/21/10]
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Year-End Financial Planning: A Checklist

The best financial decisions are made with the benefit of time, thoughtful consideration, and trusted professional advice. As the end of the year approaches, take the time to prepare for sound long-term financial decisions and minimize expenses, taxes, and the headache of organizing your finances at the last minute.

Organize Your Tax Records Early

In preparing for this year's tax filing, begin to organize tax records including year-end investment statements, capital gains and losses from asset sales, transaction records from real estate transactions, interest and dividend records for the year (1099s), payroll and withholding statements (W-2s), records corresponding with deductible expenses such as property taxes and insurance, business income and expense records, etc. Some of these will not come until January or February of the following year.

Review Your Insurance Coverages

At least once each year, gather your insurance records together and review the adequacy of your insurance policies. Be sure to evaluate all coverages, including life insurance, disability income insurance, homeowners insurance, auto insurance, liability insurance, renters insurance, long-term-care insurance, etc.

Store Your Documents Safely

All your hard-to-replace legal and financial documents should be stored in a safe and fireproof location. Consider renting a safe-deposit box at your local bank or credit union, or purchase a fireproof lockbox from your local office supplies outlet. Documents you should store include wills, trusts, powers of attorney, titles of ownership (your home, cars, etc.), Social Security cards, birth certificates, photographic negatives, list of personal possessions, and so forth.

Review Your Estate Plan

Does your will still fairly reflect your personal wishes for the distribution of your assets? Have the personal or financial circumstances or your beneficiaries significantly changed over the past year? Have you considered a gifting program to move assets from your estate to those you wish to enrich? Have you reviewed your estate plan in light of changing estate tax laws or changes in your personal financial position?

Prepare to Minimize Your Income Tax Liability

Consider estimating your federal and state income tax liabilities periodically to ensure proper withholding levels and quarterly estimated tax payments. This will prove especially important if you sell significant assets during the year or experience large swings in your income level. Consider maximizing your deductible expenses and savings such as qualified retirement plans, charitable giving, deductible expenses, etc. Be careful to meet all IRS dates and deadlines for withholdings and filings.

Review and Improve Your Balance Sheet

The one true path to financial independence over the long term is increasing your long-term saving and decreasing your debt. If you are not maximizing your tax-deductible employer sponsored retirement plans and your individual tax-advantaged saving plans, evaluate your monthly cash flows with an eye toward increasing your monthly saving. The other side of your balance sheet, the liabilities side, is equally important in maintaining a healthy personal financial position. Every effort should be made to eliminate completely the need for short-term debt (credit cards and debit balances) and to efficiently manage your long-term debt (mortgages).

Simplify Your Financial Holdings

Simplifying your financial holdings can eliminate much of the drudgery of financial recordkeeping. If you have credit cards you don't use, cancel them and eliminate the extra statements. Consider consolidating your credit lines to the greatest extent possible. Review your investment holdings for non-performing assets or redundant accounts and consolidate your investments.

To Sum Up...

Although you may be able to think of more exciting ways to spend your time, organizing your financial records and planning your financial future will pay huge dividends in the long run. Do what you can on your own and seek professional advice from a trusted advisor where additional planning needs to be done.

Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as tax, legal, or investment advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary therefore, the information should be relied upon when coordinated with individual professional advice. Past performance is no guarantee of future results. Diversification does not ensure against loss. Source: Financial Visions, Inc.

Financial Management Strategies, LLC (FMS) is a Registered Investment Advisory firm in the State of Maryland. Providing its advisory services to both institutions and individuals.

Mr. Petiri is a Registered Investment Advisor. His nearly two decades of financial experience covers virtually all areas of finance from tax, insurance, stockbrokerage, personal financial planning and personal banking to corporate credit, business planning and consumer lending. Mr. Petiri has frequently appeared on WEAA (88.9 FM) as a financial commentator, on his local ABC affiliate regarding the 2008 &

2009 economic downturn, interviewed by the Investment News magazine, has written for the Journal of Personal Finance, and publishes a monthly financial advice column called the Foresight. He serves on the Finance Committee of Associated Black Charities. Walid is a devoted parent to his son and daughter and a member of Bethel African Methodist Episcopal Church.