



# Financial Solutions

## Planning & Investments

### 401k Insights

Welcome to our first edition of your 401k Insights newsletter for 2018. Hopefully you were able to spend some much deserved time with friends and family over the past few weeks. Our topic this quarter dives into some of the differences between:

- Actively Managed Funds (AMF)
- Passively Managed Funds (PMF)

#### SIMILARITIES

Both investment vehicles attempt to disperse risk by allowing the investor to buy a mix of stocks and bonds of various companies. All else equal, theory teaches that the larger an investment lineup the lower a portfolio's risk. This allows for diversification and limits what is referred to as single stock risk, or the risk of having all your eggs in one basket. Another similarity between the two investment vehicles includes the oversight of a portfolio manager. As explained later there are differences in management types, but portfolio managers ensure investments don't drift too far off a fund's target index, sector, or investment mandate.

A final similarity involves the process of the fund's closure or termination. We typically refer to closures via three methods: 1) Soft Close; 2) Hard Close; 3) Fund Termination. A "Soft" close usually occurs when the fund is approaching an extremely large size or has grown too rapidly in a short period of time. Managers implement a soft close by stopping any new investors from buying into the fund, but still allow current investors to buy or sell shares. This dramatically slows down the growth of the fund and will help to limit its size. A "Hard" close is the next level of protection as the manager will stop all purchases of the fund and will only allow sells to occur. In both hard and soft closures, the fund management has decided that the size is approaching or has reached an unsustainable level. Finally, a Fund termination is as it sounds. The fund will delist from

its designated exchange and force holders to sell their shares of the fund. This could be due to departure of management, fund underperformance, a change in investment philosophy at the fund company, and/or other factors.

#### DIFFERENCES

First, as their name indicates the primary difference in the investment vehicles pertains to the management type of each fund. Active Managed Funds have portfolio managers who hand pick stocks and bonds of companies trying to outperform the market or index. Because of an increased level of scrutiny and amount of attention, AMFs tend to have higher management fees. By contrast, PMFs install investment lineups that usually track/mimic a given sector (i.e. Grocery Stores), asset class (i.e. Bonds), or index such (i.e. the S&P 500 Index). This passive strategy replicates their given benchmark with usually very little variance in the investment lineup. Managers of passive strategies ensure drift from the benchmark is maintained within tolerances and will rebalance or sell assets when required.

Tax efficiency and lower cost create the second largest differentiator between the investment vehicles. Because actively managed funds attempt to take advantage of market opportunities, they will sell and buy investments more frequently than passively managed funds. This creates more taxable events and can lead to larger capital gains and dividend distributions in AMFs. Within your 401k or qualified plan, tax efficiency isn't a concern. Tax consequences are only incurred upon the distribution of your 401k or qualified plan assets, not upon the sale of funds while held within the account. However, if you hold assets in non-qualified accounts such as a JTWROS or TOD account, tax efficiency of your portfolio should be considered.

Feel free to contact us regarding your plans investments as we are here to help you navigate your qualified plan and any personal investment planning you may be facing.



# Financial Solutions Planning & Investments

6100 Uptown Blvd NE, Ste 610  
Albuquerque, NM 87110  
505.291.8585 x 2010 or 505.717.1111  
www.FinancialSolutionsPI.com

## Did you know?????

Bitcoin was the brainchild of a still unknown individual “Satoshi Nakamoto”. Satoshi published a paper in 2008 titled “Bitcoin: A Peer-to-Peer Electronic Cash System” introducing the theory of bitcoin and blockchain technology. Bitcoin software was released in 2009. Only 21 million bitcoins will ever be released. Bitcoin’s can be “Mined”, exchanged for goods and services, and are beginning to be bought/sold on the open markets. There are any number of crypto currency’s arriving to market each day, i.e. Ethereum, as blockchain technology begins to be incorporated in our daily lives. ***If you are considering this as an investment, please ensure you understand all risks as this unregulated market is still in its infancy and will face dramatic price fluctuations.***

Index	12/29/2017	Change	% Change	% YTD
Dow Jones Industrial Average	24,719.22	-118.29	-0.48%	25.08%
S&P 500	2,673.61	-13.93	-0.52%	19.42%
NASDAQ Composite	6,903.39	-46.77	-0.67%	28.24%
Russell 2000	1,535.51	-13.42	-0.87%	13.14%
MSCI EAFE	2,050.79	7.48	0.37%	21.78%
MSCI Emerging Market	1,158.45	4.87	0.42%	34.35%
CBOE Market Volatility	11.04	0.86	8.45%	-21.37%
U.S. Treasury 10-Year (YTM %)	2.406	-2.5 bps	-1.03%	-3.9 bps
Barclays U.S. Aggregate Bond	na	na	0.14%	3.54%
WTI Crude Oil (\$/bbl.)	60.42	0.58	0.97%	12.47%
Gold (\$/oz.)	1,303.05	8.11	0.63%	13.09%

Source: Bloomberg. All performance percentages are simple appreciation, which excludes the effect of dividends.  
Barclays U.S. Aggregate displays as actual YTD%, as opposed to 12-month, year-over-year performance.

### TRAVIS FLANDERMAYER, MBA, AIF®

\*9+ Year's Experience, Washington University MBA

~Mr. Flandermeyer is required to act as a fiduciary with all his clients as an Investment Advisor Representative.

~Pertinent Education, Licenses and Registrations: MBA, Series 7, Series 66

### PHILIP J. MESSURI, MS, CFP®

\*20+ Years Experience, Former Air Force Pilot

~Mr. Messuri is required to act as a fiduciary: As an Investment Advisor Representative; and, as a CERTIFIED FINANCIAL PLANNER™ Professional.

~Pertinent Education, Licenses and Registrations: MS, CFP®, Series 7, Series 24, Series 63, Series 65

### JOSH HOVDA, BBA

\*4+ Years Experience

401(k) & Retirement Plan Specialist  
Series 7, 66, Life & Health

## OUR SERVICES INCLUDE:

- FEE-BASED PORTFOLIO MANAGEMENT
- TRADITIONAL AND ROTH IRA MANAGEMENT
- LIFE INSURANCE
- DISABILITY INSURANCE
- FINANCIAL PLANNING
- LEGACY PLANNING
- LONG TERM CARE INSURANCE
- SOCIAL SECURITY PLANNING
- 529 AND EDUCATION SAVINGS

### Disclosures:

Investment Advisor Representative offering advisory services and securities through Cetera Advisor Networks LLC, Member FINRA / SIPC. Cetera is under separate ownership from any other named entity. All investing involves risk, including the possible loss of principal. There is no assurance that any investment strategy will be successful. 10% IRS penalty may apply to withdrawals prior to age 59 ½. Advisory services may only be offered by Investment Advisor Representatives in connection with an appropriate Cetera Advisor Networks LLC Advisory Services Agreement and disclosure brochure as provided. Investors cannot invest directly in an Index. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.