



# The Power of Financial Planning

*Millions of Americans have pressing financial questions that need answers, but, unfortunately, many have not had access to competent and ethical financial advice.*

The inherent beauty of the financial planning profession is its applicability to all people. Financial planning is global, and it transcends cultural, social, and wealth boundaries. The financial planning professional works in multiple capacities across an organizational spectrum of boutiques, middle market firms, and mature multinational banks. A confluence of factors, including our nation's economic plight and challenging job market, make financial planning more relevant than ever. Blue Ocean Global Wealth recognizes this expanding demand for qualified advice. As a trusted partner committed to providing objective insight, we strive to educate regulators and empower consumers.

The value of financial planning remains uncertain and somewhat ambiguous to the average consumer. However, the essence of financial planning is practical. The Certified Financial Planner Board of Standards Inc. (CFP Board) upholds the industry standards of excellence for ethical personal financial planning. CFP® certification is the gold standard in personal financial planning. We believe financial planning is a client-centered process, best applied through a multidisciplinary latticework of knowledge and experience. An integration of economics and behavioral finance, for instance, and how these disciplines relate to financial planning, enhances one's ability to better address the needs and ambitions of each client.

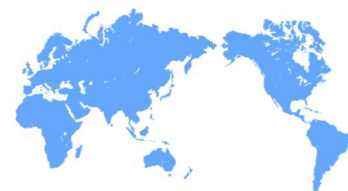
The Power of Financial Planning will address:

- The definition of financial planning
- The benefits of financial planning
- CFP® certification requirements
- Financial designation ambiguity
- Eight traits to look for in a financial planner
- Distinction between investment management and financial planning
- CFA charter requirements
- Diversified asset control
- Applying the wisdom of Charles Munger: "febezzlement"

## What Is Financial Planning?

Although most people know that saving for their financial future is important, many are not clear about what steps to take in order to accomplish their goals. As inventor Thomas Edison said, "Good fortune is what happens when opportunity meets with planning." Financial planning is the process of meeting your life goals through the proper management of your financial resources. These goals may include purchasing a home, saving for college, or planning for financial independence. It's important to know that financial planning is a process, not a transaction. There is not a single segment of our lives that is not affected by financial planning. The goal is to adopt a big-picture, integrative approach to your personal financial situation and goals.

*Investment planning in isolation does not constitute financial planning.* Financial planning is about controlling spending, managing credit, reducing taxes, increasing savings, protecting family wealth, and building assets for the future. This process entails gathering financial information, evaluating your current financial status, establishing life goals, and developing a strategy to help you achieve them.



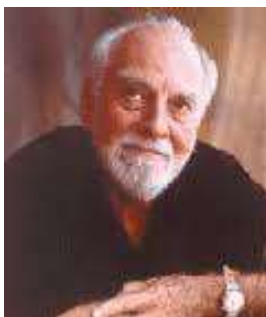
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*Wealth management is a comprehensive and holistic approach to life that encompasses financial planning, investment portfolio management, risk management, tax planning strategies, and estate-planning services to individuals with substantial resources.* There is no generally accepted standard for which products or services constitute wealth management. Wealth management is a holistic approach to understanding and providing solutions to the many financial concerns of a client's financial life. Just as a primary care physician serves as a gatekeeper to coordinate the care given by varied organizations and collaborates with referral specialists, a wealth manager acts as a relationship manager to better serve the client.

*Finding the right wealth manager is critical.* This person will be committed to identifying and understanding your financial challenges and proactively identifying solutions. We encourage our clients to think of this in the same way that doctors and patients embrace the philosophy of integrative medicine, which is designed to treat the person, not just the disease. At its core, the success of integrative medicine depends on a collaborative partnership between the patient and the doctor, where the goal is to treat the mind, body, and spirit.

*Collaboration among your team of specialized advisors is also vital.* As the financial lives of wealthy clients have become more complex, the notion of working with a team of professionals has become more important. Many of our clients value a streamlined integrative approach to managing their financial affairs. We encourage our clients have a team of experts, each focused on a different area of expertise. The CFP® professional coordinates advice to assure consistency of tactics and strategies.

- CFA charterholder—ensures investment policy statement (IPS) and portfolio align with financial plan
- CPA Accountant—proactively partners with financial planner to maximize after-tax return
- Insurance Agent—implements insurance component of financial planning
- Attorney—forms trusts and implements the estate plan



*The father of Financial Planning, Loren Dunton founded the Society for Financial Counseling in 1969.*

*"Financial education is the learning part. Financial planning is the doing part."*

*-Loren Dunton [1918-1997]*

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## **Benefits of Planning**

Creating a financial plan helps you see the big picture and establish long- and short-term life goals, a crucial step in mapping out your financial future. When you have a strategy and a financial plan, it's easier to make financial decisions and stay on track to meet your goals. Working with the right CFP® professional is fundamental to your financial well being and success. The experience should provide peace of mind, insight, and clarity when relating your life goals to your personal and family's evolving financial picture.

Financial planning helps you understand the impact that each financial decision has on other areas of your financial life. For example, increasing contributions to your employer-sponsored retirement plan affects your cash flow, taxes, investment portfolio, and retirement plan. This integrated approach to managing your wealth provides purpose and confidence to your financial decisions. You can also better adapt to life transitions and gain a sense of empowerment knowing that you are progressing toward your financial goals.

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## Developing a comprehensive financial plan is a process

**1. Establish and define the professional relationship** Healthy planning relationships begin with a conceptual understanding of the importance of financial planning. Financial planning is a clearly defined process that coordinates all areas of your financial life to meet your and your family's financial goals. The planner will explain his or her financial planning services and disclose the method of compensation. The planner will define the respective roles and responsibilities for both parties. The planner applies skills and knowledge to help you achieve financial independence and reach your financial goals. In exchange, you agree to compensate the planner a predetermined fee for the financial planning engagement

**2. Gather client data and discuss financial goals** The planner will need qualitative and quantitative information to understand your financial situation. To assess your current financial position, your planner will construct a net worth statement and cash flow statement. Together, you will identify your personal and financial goals, as well as key areas of concern. You will also discuss your time horizon and capacity for risk. Effective planning is predicated upon the prioritization of realistic, challenging, and obtainable goals.

**3. Analyze and evaluate your financial status** Assess your current situation in terms of assets, investments, liabilities, risk, insurance coverage, tax status, employee benefits, and cash flow. Review all subjective data to provide the facts greater context and direction. The planner will evaluate whether or not you can meet your goals, needs, and priorities given the current course of action.

**4. Develop and present recommendations** Consider the various alternatives available to meet objectives, given your financial position, personal situation, and investment constraints. The financial planning process is client dependent: options may be numerous and complex or few and simplistic. Effective presentation of recommendations helps you adopt an integrated approach to your finances and understand how change in one instance can affect other areas of your financial life. At this stage, the planner listens to concerns and revises recommendations accordingly.

**5. Implement the written financial plan** This step necessitates mutual clarity and understanding. Together, you and your planner will determine how to implement the recommendations. The written financial plan provides a documented working framework. Implementation may include coordination with other professionals such as attorneys or accountants.

**6. Monitor recommendations** Sound financial advice provides direction and guidance. Ongoing financial advice and goal tracking require client engagement and interaction. Therefore, the final step of the financial planning process is to review your progress and update your financial plan. It is important to adjust your plan on a periodic basis



*“Financial Planning for an individual is like a manageable campaign. The right professional helps you define your meaning of success, develops a coherent investing and saving strategy, and implements a written financial plan in support of your life goals. Add a dose of sensitivity, humor, and a diverse and tolerant point of view, and it becomes clear why working with an experienced CFP® professional is crucial.”*

*-Robert Raben*



## CFP® Certification Requirements

Most people think all financial planners are “certified,” but this is not true. Anyone can call himself or herself a “financial planner.” Only a select group of planners who have satisfied the certification and renewal requirements of CFP Board can display the CFP® certification marks, which represent a high level of competency, ethics, and professionalism. CFP Board’s Standards of Professional Conduct requires CFP® professionals to place client interests above their own.

The following five words describe the requirements for obtaining and maintaining the CFP® certification:

**Education:** CFP® professionals must develop their theoretical and practical financial planning knowledge by completing a comprehensive course of study at a college or university that offers a financial planning curriculum approved by CFP Board. CFP® professionals are required to complete 30 hours of continuing education (CE) every two years. This includes 2 hours of CFP Board approved Ethics CE. All reported CE hours must be processed by CFP Board on or before the expiration date in order to avoid certification expiration. This requirement is designed to ensure that CFP® professionals review and remain informed of the Standards of Professional Conduct to which they agree to adhere as a condition of certification. More than 1,000 Continuing Education Sponsors, including Blue Ocean Global Wealth, have registered with CFP Board to offer CE programming to CFP® professionals.



**Experience:** Certified Financial Planner™ professionals must have a minimum of 3 years experience in financial planning prior to earning the right to use the CFP® certification marks. This hands-on experience guarantees that CFP® professionals have practical financial planning knowledge, so you can depend on them to help you develop a realistic financial plan.



**Ethics:** When it comes to ethics and professional responsibility, CFP® professionals are held to the highest of standards. CFP Board’s Code of Ethics outlines CFP® professionals’ obligations to principles of integrity, objectivity, competence, fairness, confidentiality, professionalism, and diligence. The Rules of Conduct require CFP® professionals to put your interests above their own and to deliver their financial planning services as a “fiduciary,” acting in the best interest of their financial planning clients. CFP® professionals are subject to CFP Board sanctions if they violate these standards.



**Examination** CFP® professionals must pass the comprehensive two-day CFP® Certification Exam. It tests their ability to apply financial planning knowledge to real-life situations. The exam covers the financial planning process, tax planning, employee benefits and retirement planning, estate planning, investment management, and insurance. The average pass rate for this difficult exam is only 56%.

**Enforcement** CFP Board’s rigorous enforcement of its Standards of Professional Conduct, including releasing disciplinary information to the public, distinguishes the CFP® certification from the many other designations in the financial services industry. Each person who seeks CFP® certification is subject to a background check, and those whose past conduct falls short of CFP Board’s ethical and practice standards can be barred from becoming certified. After attaining certification, a CFP® professional who violates CFP Board’s ethical and practice standards becomes subject to disciplinary action, up to permanent revocation of their certification. Through diligent enforcement of its ethical and practice standards, CFP Board provides you with the confidence that your CFP® professional is both competent and ethical.



*"In order to manage your financial objectives effectively, you will need to seek out and use the services of a dedicated, creative, knowledgeable and caring CFP® professional who is backed by a team of professionals."*

*-Vern Hayden, CFP®, Hayden Wealth Management*

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## **Eight Traits to Look for in a Financial Planner**

***A Planner Who Is Competent.*** CFP® professionals demonstrate an appropriate level of financial planning. CFP® certification reinforces your financial planner competency through rigorous education and experience requirements, including continuing education coursework.

***Provides Objective Advice.*** Your needs will be at the heart of all your planner's recommendations. CFP® professionals have an ethical obligation to follow their financial planner duties and act in your best interest. Your financial advisor will use his or her experience and judgment to carefully consider your situation and then give you advice that best meets your goals. Sometimes, this objectivity may require your planner to explain that your goals are unrealistic given your current resources and financial commitments.

***A Planner With Integrity.*** Trust is central to a successful financial planning relationship. You rely on your planner's honesty, professionalism, and abilities to achieve your goals. When you know your planner takes his or her financial planner duties and responsibilities seriously and places principles over personal gain, you can form a good working partnership. CFP Board's strict Standards of Professional Conduct are designed to ensure CFP® professionals act in a professionally responsible manner.

***A Planner With Empathy.*** Clearly, education, expertise, and experience are important, but empathy—the ability to mutually experience the thoughts, emotions, and direct experience of others—is key because it facilitates mutual understanding. By being empathetic, the best CFP® professionals are able to provide their clients with clarity and confidence.

***Ensures Fair Treatment.*** Fair treatment means your CFP® professional will clearly state what financial planning services will be provided and at what cost. Your planner will also explain the risks associated with his or her financial recommendations, along with any potential conflicts of interest. For example, how does the financial planner benefit personally or financially from your purchase of a particular product or from the outcome of a suggested strategy? CFP® professionals are required to disclose any money they make from the sale of a product.

***A Planner Who Is Diligent.*** Before engaging you as a client, your CFP® professional will discuss your goals and objectives and explain what you can expect from the relationship and financial planning services. Once your planner has determined that he or she (or his or her staff and/or network of related professionals) can assist you, the planner will make recommendations suitable for you. A diligent financial advisor will reasonably investigate the products or services he or she recommends and closely supervise any staff working with you.

***A Planner Who Is Professional.*** Your CFP® professional will not offer investment advice or stock brokerage services unless he or she is properly qualified and licensed to do so, as required by state or federal law. A financial planner who holds CFP® certification may not be a broker/dealer, which refers to an individual who is licensed to buy and sell investment products for or to clients.

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**Privacy.** To obtain the best outcome from your financial planning relationship, you need to divulge relevant personal and financial information to your financial planner on a regular basis. Your CFP® professional will keep this information in confidence, only sharing it to conduct business on your behalf, with your consent or when ordered to do so by the courts.

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*"There are no universal standards to evaluate the quality and effectiveness of financial education programs and resources. Evaluation practices are dependent on funding, time, human resources, and evaluation design and expertise. The inconsistency, inadequacy and mismatching of standards leads to incongruous results that cannot be used to rate programs."*

*-President's Advisory Council on Financial Capability 2013 Final Report*

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## Too Many Financial Designations

The investing public is vulnerable to confusion about professional designations and certifications; the standards of ethics, experience, education, and examination vary significantly from designation to designation. Because there is no federal or consistent state regulation or oversight of certifications and designations, Americans—especially seniors—are left on their own to sort through the alphabet soup of letters at the end of a financial professional's name. Progress on these public policy issues will be made only when we can facilitate a framework and rating system for comparing the legitimacy, value, and authenticity of each financial accreditation.

The Consumer Financial Protection Bureau (CFPB) and CFP Board are shining a bright light on those who seek to abuse older Americans. Blue Ocean Global Wealth represents the financial planning industry at forum dialogues with both organizations. We openly facilitate collaboration between the public and private sector. These efforts are designed to help ensure that seniors and their families can detect and prevent elder abuse and investment fraud. We advocate CFP Board's support of the following Consumer Financial Protection Bureau recommendations:

- Creating a baseline standard and verification system for consumers to research qualified financial-service designations
- Requiring minimum levels of professional standard conduct for education, accreditation, and experience
- Requiring disclosures by professionals claiming senior specific expertise
- Tracking of senior-designation-related complaints by the Securities and Exchange Commission (SEC)
- Strengthen supervision, accountability, and enforcement of individuals who possess certain designations and are working with seniors

Industry leaders, together, must steward reforms that would require those who work with seniors to at least meet baseline competency and ethical standards. Another CFP Board policy recommendation that we support is the implementation of a government accountability office to gather data and objectively make recommendations on these consumer protection issues.



*"We recognize the critical importance of protecting the financial security of our nation's seniors. And so we will continue working to help seniors improve their economic security, as well as to make consumer financial markets work better for all consumers."*

*-Richard Cordray, CFPB Director*

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## **Does Your Financial Advisor Actually Do Financial Planning?**

A lack of standardized options and varying degrees of competency perpetuate ambiguity and confusion when attempting to objectively evaluate an advisory relationship. Financial planning empowers families with structure and clarity, reconciling the impact of each financial decision. Interestingly, some financial advisors simply do not know how to plan. At the beginning of the relationship, financial advisors, for the most part, genuinely seek to understand a new or prospective client's goals. As part of their process for acquiring a new client, financial advisors confidently articulate their value. They utilize a standardized risk and goals assessment questionnaire, but rarely apply the results to a written financial plan. Further compounding the problem, many successful financial services professionals are charismatic, likeable, and well-intentioned people. This charm is what enabled the advisor to acquire clients, build a practice, and become "successful". The reality is that the advisor may not invest the time or energy to acquire advanced financial planning knowledge and competency.

With 41% of financial advisors over the age of 50, succession planning is a colossal challenge. Ironically, the financial advisor, whose job function is to guide their clients and best position them for achieving their desired lifestyle and retirement vision, invests very little time in protecting their own business equity. Most advisors have not developed an optimal exit strategy or succession plan. A shortage of experienced advisors, technology integration, and a fragmented industry present challenges when attempting to formulate a succession plan.

The pool from which to choose a successor has disadvantaged the aging advisor. For the past 15-plus years, major firm resources have been allocated to recruiting top-producing advisors from the competition. Simply put, they have not created programs to help young advisors build the critical wealth management skills and knowledge required to attract the increasingly sophisticated client. The economic downturn beginning in 2007-2008 also contributed to this supply/demand imbalance. The myopic perspective of financial services firms, who concentrate a disproportionate amount of time and resources on improving bottom line, further exacerbates this problem. New and younger advisors fell victim to this industrywide contraction, and, on the whole, the industry is not investing resources judiciously. Veteran advisors who do not have a succession plan risk jeopardizing the financial futures of their clients.

## **Investment Management Does Not Equal Financial Planning**

A diversified investment portfolio is not a substitute for a financial plan. The financial planning architect creates an adaptable blueprint for your future. Financial planning integrates portfolio management into the other areas of your financial life: spending control, credit management, taxes, savings, asset preservation, and building wealth for the future. The financial planning process reconciles how investment decisions impact all areas of your financial situation.

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## CFA Charter Requirements

The CFA® Program is a globally recognized, graduate level curriculum that provides a strong foundation of real-world investment analysis and portfolio management skills along with the practical knowledge you need in today's investment industry. It also emphasizes the highest ethical and professional standards.

Since it was first introduced in 1963, the Chartered Financial Analyst® designation, or CFA charter, has become the most respected and recognized investment credential in the world. There are currently more than 90,000 CFA charterholders working in over 135 countries around the world. Regulatory bodies in 19 countries recognize the CFA charter as a proxy for meeting certain licensing requirements.

More than 125 distinguished colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own courses, including the University of Oxford's Saïd Business School; New York University; INSEAD; Peking University; and Nanyang Technological University.

Earning the CFA charter demonstrates mastery of the skills most needed for investment analysis and decision-making in today's fast-evolving global financial industry. Employers and clients around the world are increasingly seeking out CFA charterholders—often making the charter a prerequisite for employment. Completing the entire Program, organized into three levels, each culminating in a six-hour exam, is a significant challenge that takes most candidates between two and five years. CFA Program candidates report dedicating in excess of 300 hours of study per level. To ensure that the Program maintains a focus on the global investment management profession from the standpoint of practitioners, practicing CFA charterholders from around the world are involved at every stage of curriculum development, exam development, exam grading, and even the setting of the minimum passing scores.

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THE WALL STREET JOURNAL  
**WSJ**



*The CFA exam takes a hard, analytical look at stocks, bonds, hedging strategies and company financial statements. People who achieve the designation typically manage institutional money and mutual funds or become involved with corporate finance. So if you have an adviser who is among the few who have earned the CFA designation, or if his or her firm has a CFA on the payroll, consider it a plus.*

*-Wall Street Journal, July 8th, 2007*

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## Diversified Cruise Control

The financial advisor industry has shifted from the transaction-dependent stockbroker to the “fee-based” financial advisor. Rooted in our earnings-driven-obsessed Wall Street culture, major firm business models focus on transitioning client investment portfolios to fee-based platforms. Publicly traded banks and financial institutions, from the top down, must relentlessly deliver value for their shareholders. These firms, over the last decade and especially after the 2008 financial crisis, crave this stable, predictable income stream.

Clients do not always understand that their advisor is paid ongoing commissions on their investment portfolio, regardless of performance. For example, if a client invests \$1 million in a managed account consisting of a diversified portfolio of mutual funds, the quarterly statement may not reflect either the embedded expense ratio, usually between 1 and 2%, or the money the advisor or custody investment firm receives in revenue. As long as the account remains in these investments, regardless of performance, the advisor will continuously receive the income stream. Your account is now annuitized.





Photo: Howard McWilliam

Asset allocation models or predetermined turnkey portfolios are promoted under the veil of customization and often applied en masse across an organization's platform of financial representatives. Advisors implement these turnkey models with little or no understanding of the underlying capital market assumptions or with no rationale for why a specific asset class or investment is included or omitted. Naturally, with an inadequate foundation of knowledge, there is very little incentive or conviction to make changes, especially if the licensed representative lacks the technical investment framework.

Be wary of "diversified cruise control" within investment portfolios. A client asks about recommended changes to the portfolio, but has little choice when offered the same basket of mutual funds, often under the guise of diversification. This practice, unfortunately, has become too customary within the financial advisor industry. When your portfolio is in cruise control, it is more than likely that your financial representative will overlook fundamental investment analysis: overlap between funds, monitoring, due diligence, attribution, sell discipline, style drift, performance drag, and portfolio manager attrition.

### **A Mungerism: "Febezzlement"**

Acts of outright fraud are described by legendary economist John Kenneth Galbraith, who coined the term "bezzle" to mean the embezzlement of money that is counted twice: once by the victim that thinks he still has the money and once by the embezzler who really has the money. Such pernicious acts as those committed by Enron and WorldCom at the turn of the century, for example, and, more recently, the peculation of Bernie Madoff and Alan Stanford, have eroded public trust.

On October 3, 2003, at the University of California, Santa Barbara, Charles T. Munger, the legendary business magnate, investor, philanthropist, sage, and partner of Warren Buffet, in his talk entitled "Academic Economics: Strengths and Faults After Considering Interdisciplinary Needs," cogently introduced a new term: "febezzlement." This new "Mungerism," as it has been called, defined as the functional equivalent of embezzlement, describes how wealth is stripped away by layers of unnecessary investment management and consulting fees.

Munger's wisdom on this subject is logical, and his criticism of the investment industry has merit. Our experience both as industry leaders and at three major U.S. brokerage firms, as well as our fiduciary responsibility to the American consumer, compels us to highlight several common industry practices that, we feel, certainly relate to the concept of febezzlement.



*“I considered the billions of dollars totally wasted in the course of investing common stock portfolios for American owners. As long as the market keeps going up, the guy who’s wasting all this money doesn’t feel it, because he’s looking at these steadily rising values. And to the guy who is getting the money for investment advice, the money looks like well-earned income, when he’s really selling detriment for money, surely the functional equivalent of undisclosed embezzlement.”*

*–Charles Munger*

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### *(1) Transaction vs. Fee-based*

A wrap fee is defined as a comprehensive fee that an investment manager or investment advisor charges a client for providing an array of services, such as investment advice, investment research, and brokerage services. Wrap fees allow an investment advisor to collect one straightforward fee from their clients, streamlining the process for both the advisor and the client. Wrap fees are typically calculated as a percentage of the assets under management. The wrap fee, also referred to as an asset management fee, is considered payment for all the direct services the client receives, and covers the administrative costs incurred by the investment firm.

Wrap fees are often subjective, and the advisor has discretion over exactly how much is ultimately charged to the client. Clients are at the mercy of the advisor, who can increase annuitized or recurring revenue by assessing a wrap fee of 2%, in addition to the internal expense ratios of a basket of mutual funds.

### *(2) In-Kind Transfer Instead of Liquidating Positions*

When a registered representative moves to a new firm or attracts a new client, an investment portfolio is usually transferred to the advisor. Many advisors may not offer their client the option of “transfer in-kind.” Transferring investments “in kind” means that specific investments are transferred over to the new company without selling your existing holdings. You can only do an “in kind” transfer if the investment you own is available at both financial institutions. The benefits of an “in-kind transfer” include the following: (1) no tax consequences resulting from selling any existing investments, and (2) reduced trading costs for the investment portfolio.

### *(3) Liquidating Mutual Fund Positions Instead of Offering the Option of Exchanging Them to Another Fund Within the Same Fund Family*

The larger mutual fund families have investment vehicles and funds that cover most of the commonly deployed asset classes. Advisors may not offer an exchange within the same fund family and simply liquidate a position, creating unnecessary fees and avoiding savings for the client, who may have reached dollar thresholds that allow investment at a lower expense breakpoint. Breakpoints offer individual investors discounts on fees by minimizing the cost of front-end sales charges on A-share-class mutual funds. For example, with an initial investment of \$1,000, an investor would pay a 5.75% sales charge to invest in A-share mutual funds, while an investor who invests \$100,000 would only pay a 3.25% sales charge. Furthermore, an investment of greater than \$1 million would not be assessed any sales charges. This difference in sales charges can amount to serious savings—more money invested and more compound interest over time.

Even if an investor does not initially have a large sum to invest, there are other options that offer breakpoint discounts. Rights of accumulation (ROA) provide the benefit of breakpoint discounts on new purchases after you realizing certain levels of total invested assets. A letter of intent (LOI) documents a client’s intent to invest a certain amount of assets before realizing the benefit of the next breakpoint discount within a specified period of time required by the investment management company.

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#### (4) Share Classes

A Shares assess a front-end sales charge. When an investor purchases Class A with a front-end sales charge, a portion of the dollars are not invested. Generally, the investor will receive a reduction in the front-end sales charge with a large purchase or if total purchases within a single fund family reach a certain threshold. Class A Shares also have annual fund expenses, but they are typically lower than the annual fund expenses of B and C Shares.

B Shares do not assess a front-end sales charge. Their annual fund expenses are higher than those of Class A Shares. B Shares typically impose a contingent deferred sales charge (CDSC), which is paid when Shares are sold. The CDSC declines over time and eventually is eliminated. Once the CDSC has been eliminated, class B Shares may convert to A Shares.

C Shares do not assess a front-end sales charge when purchased. C Shares may have a small charge if sold within the first year and their annual fund expenses are higher than those of Class A Shares. C Shares generally do not convert to A Shares and their annual fund operating expenses will not be reduced. C Shares may have a CDSC or other redemption fees.

Institutional Shares are a class of mutual fund Shares available for sale to investing institutions, either on a load or no-load basis. With sizable minimum investments, usually around \$500,000 or more, funds will typically waive any front-end sales charges on these Shares.

*Be wary of advisors who have no rationale or conviction for splitting money among several investment companies or share classes.*

#### (5) Unsuitable Transactions

Illiquid investments are assets that cannot be exchanged easily for cash, sold without a substantial loss in value, or may be subject to a substantial surrender charge or redemption fee. Illiquid investments are disadvantaged when the ratio of buyers to sellers becomes imbalanced during periods of market turmoil or enhanced volatility.

Churning is the practice of excessive trading in a client's account. There is a fine line that separates active trading and churning. The unscrupulous advisor who churns will likely have an explanation for making the next trade. This advisor seeks to increase commissions under the guise of being active and positioning a portfolio to increase a client's wealth. A warning sign could be a disproportionate increase in the volume of transactions but little gain in portfolio value.

### Conclusion

Financial planning is intellectually stimulating, emotionally gratifying, and financially rewarding—and it delivers positive societal impact to our community. Serving clients in a financial planning capacity is special by its very nature: clients share the most intimate details of their financial and personal lives. It is never too early to plan, nor is it ever too late to start planning. You may not be able to control stock market volatility, interest rate fluctuations, or the value of your home, but you can still be in control of your future.



*"Financial literacy is unequivocally necessary in today's global economy. Persons who fail to recognize the importance of acquiring these skills early in life are marginalized."*

-Maxine Waters, House Financial Services Committee

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## Glossary

**Assets Under Management (AUM) Fees:** Fees that are calculated by multiplying a percentage by the value of assets managed; also called ad valorem fees.

**Annuitization:** The process of converting an annuity investment into a recurring revenue stream or series of periodic income payments.

**Asset Allocation:** Asset allocation is a process and a result. In strategic asset allocation, an investor's return objectives, risk tolerance, and investment constraints are integrated with long-run capital market expectations to establish exposures in accordance with Investment Policy Statement (IPS) permissible asset classes. Tactical asset allocation involves making short-term adjustment to asset class weights based on short-term predictions of relative performance among asset classes.

**Attribution:** A performance-evaluation tool used to analyze the abilities of portfolio or fund managers. Attribution analysis uncovers the impact of the manager's investment decisions with regard to overall investment policy, market allocation, security selection, market capitalization, currency contribution, sector, industry, country, and activity. A fund or portfolio's returns are compared to a benchmark in order to determine whether a manager is actually skilled or just lucky.

**Behavioral Finance:** An approach to finance based on the observation that psychological variables affect and often distort individuals' investment decision making.

**Benchmark:** Something taken as a standard of comparison; a comparison portfolio; a collection of securities or risk factors and associated weights that represents the persistent and prominent investment characteristics of an asset category or manager's investment process.

**Breakpoint discount:** A discount based on the amount of money invested in a mutual fund that charges a load, or sales charge. The more money an investor commits to a particular mutual fund, or funds within the same fund family, the larger the discount on the sales charge.

**Capital Market Expectations:** Expectations concerning the risk and return prospects of asset classes.

**CFA Institute:** CFA Institute is a global association of investment professionals.

The organization offers the Chartered Financial Analyst (CFA) designation, the Certificate in Investment Performance Measurement (CIPM) designation, as well as the Claritas Investment Certificate. Those with a CFA and other qualifications may also be eligible for the Chartered Investment Counselor credential. It provides continuing education conferences, seminars, webcasts and publications to allow members and other participants to stay current on developments in the investment industry. CFA Institute also oversees the CFA Institute Research Challenge for university students and the Research Foundation of CFA Institute. CFA Institute offices are located in New York City, London, Hong Kong, and Charlottesville, Virginia USA.

**CFA:** A professional credential offered by the CFA Institute (formerly AIMR) to investment and financial professionals. A candidate who successfully completes the program and meets other professional requirements is awarded a "CFA charter" and becomes a "CFA charterholder."

**CFP Board:** Certified Financial Planner Board of Standards, Inc. (CFP Board) was founded in 1985 as a 501(c)(3) non-profit organization that serves the public interest by promoting the value of professional, competent and ethical financial planning services, as represented by those who have attained CFP® certification. CFP Board sets and enforces the requirements for CFP®. Individuals who successfully complete CFP Board's initial and ongoing certification requirements are authorized to use the CFP® certification marks in the United States. Responsibility for administering the CFP certification program outside the U.S. was transferred from CFP Board and the International CFP Council to an independent organization, Financial Planning Standards Board Ltd in 2004.

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**CFP®:** A professional certification mark for financial planners conferred by the Certified Financial Planner Board of Standards (CFP Board) in the United States.

**Due Diligence:** Investigation and analysis in support of an investment action or recommendation, such as the scrutiny of operations and management and the verification of material facts.

**Estate Planning:** The process of preparing for the disposition of one's estate (e.g. the transfer of property) upon death and during one's lifetime.

**Febezzelment:** The functional equivalent of embezzlement as described by Charles Munger, who uses it to describe how wealth is stripped away by layers of unnecessary investment managers and consultants.

**Fee-based Model:** Investors in fee-based accounts pay a set percentage typically tied to the size of their account.

**Fiduciary:** From the Latin fiducia, meaning trust, a person or entity standing in a special relation of trust and responsibility with respect to others parties.

**Hedge Fund:** A historically loosely regulated, pooled investment vehicle that may implement various investment strategies.

**Investment Policy Statement (IPS):** The investment policy statement is a client-specific summation of the circumstances, objectives, constraints, and policies that govern the relationship between advisor and investor. A well-constructed IPS presents the investor's financial objectives, the degree of risk he or she is willing to take, and any relevant investment constraints that the advisor must consider. It also sets operational guidelines for constructing a portfolio that can be expected to best meet these objectives while remaining in compliance with any constraints. The IPS may also establish a mutually agreed-upon basis for portfolio monitoring and review.

**Letter of Intent (LOI):** An agreement between an investor and a fund company to offer a reduced sales charge on purchases into mutual funds when investing a specified dollar amount over a stated period of time.

**Liquidity Risk:** Any risk of economic loss because of the need to sell relatively less liquid assets to meet liquidity requirements; the risk that a financial instrument cannot be purchased or sold without significant concession in price because of the market's potential inability to efficiently accommodate the desired trading size.

**Monitoring:** To systematically keep watch over investor circumstances (including wealth and constraints), market and economic changes, and the portfolio itself so that the client's current objectives and constraints continue to be satisfied.

**Net Worth:** The difference between the market value of assets and liabilities.

**Performance Drag:** The negative effect of transaction costs on the performance of an investment. Performance drag is most commonly attributed to brokerage commissions, but there are many other factors such as timing, bid-ask spreads and other opportunity costs that can cause the return of an investment to lag behind the return seen in the market.

**Right of Accumulation (ROA):** A right that allows a shareholder to receive reduced sales charges when the amount of mutual funds purchased, plus the amount already held, equals an ROA breakpoint. Additionally, there is no time limit on how long the mutual fund needs to be held to qualify for a ROA.

**Risk Management:** The process of identifying the level of risk an entity wants, measuring the level of risk the entity currently has, taking actions that bring the actual level of risk to the desired level of risk, and monitoring the new actual level of risk to that it continues to be aligned with the desired level of risk.

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**Style Drift:** Inconsistency in style. Typically, the divergence of a mutual fund from its stated investment style or objective. Style drift occurs as a result of intentional portfolio investing decisions by management, a change of the fund's management or, in the case of stocks, a company's growth.

**Tax Efficiency:** The proportion of the expected pretax total return that will be retained after taxes.

**Transaction-dependent model:** The pricing model where the advisor earns a commission for each trade made in a client account.

**Turnover:** A measure of the rate of trading activity in a portfolio. (we should consider add this to churning section)

**Volatility:** Represented by the Greek letter sigma ( $\sigma$ ), the standard deviation of price outcomes associated with an underlying asset.

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## About the Authors

Marguerita M. Cheng is the Chief Executive Officer at Blue Ocean Global Wealth and Blue Ocean Global Technology. Prior to co-founding Blue Ocean Global Wealth, she was a Financial Advisor at Ameriprise Financial and an Analyst and Editor at Towa Securities in Tokyo, Japan. Marguerita is a past spokesperson for the AARP Financial Freedom Campaign and a regular columnist for Kiplinger. She is a CFP® professional, a Chartered Retirement Planning Counselor<sup>SM</sup>, a Retirement Income Certified Professional® and a Certified Divorce Financial Analyst. As a Certified Financial Planner Board of Standards (CFP Board) Ambassador, Marguerita helps educate the public, policy makers, and media about the benefits of competent, ethical financial planning. She serves as a Women's Initiative (WIN) Advocate and subject matter expert for CFP Board, contributing to the development of examination questions for the CFP® Certification Examination. Marguerita also volunteers for CFP Board Disciplinary and Ethics Commission (DEC) hearings. She served on the Financial Planning Association (FPA) National Board of Directors from 2013 – 2015 and is a past president of the Financial Planning Association of the National Capital Area (FPA NCA). Rita is a recipient of the Ameriprise Financial Presidential Award for Quality of Advice and the prestigious Japanese Monbukagakusho Scholarship.

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