Steven G. Blum and Associates LLC

Serving individuals and families by guiding them through every aspect of their financial lives.

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Some Misconceptions About Your Personal Finances:

"I believe the true costs of using my stock broker/financial planner/salesman are reasonable and in line with fair standards."

The amounts charged indirectly and in various hidden ways are really "all over the map." Several new clients had previously been with two of the world's largest brokerage firms. It took a complex investigation but we eventually estimated that one was paying 4.7% and losing out on an additional 1.2% due to bad investment and tax decisions by the broker. The second was estimated to be paying approximately 4.6% and losing out on a further 0.8%. Both of these clients believed what they had been told: that they were being charged 1% per year on the value of their portfolio.

What is a reasonable amount to pay for financial advice? There seems to be a rough consensus in the industry that a fair fee for advice on investments is between 1% - 1.25% of the value of your portfolio. If your advisor can also offer you tax planning services, based on high levels of skill and training, it is probably worth another 1%. The opportunity to discuss other aspects of your financial life - such as insurance, gifting, debt, and long range planning – is probably worth ½ of a percent more. So, you should avoid paying more than 2.75% for high quality comprehensive financial advice.

An important part of successfully managing your financial life is finding out the true cost of the guidance you are receiving and making sure that you are not overpaying. This involves doing a careful analysis of all your accounts. Consider sales charges ("loads"), underlying operating fees, fund transaction costs, excessively expensive "alternative investments," advising fees, management fees, underwriting fees (if your broker is buying you investments that her firm underwrites), and securities with excessive "trading spreads". Beyond all those costs, try to figure out if investments are being bought for your account that indirectly benefit the firm – for example stocks in which they carry an inventory or funds the Firm runs or advises.

"I think that, even if we are overpaying, it is not critical to take action because the amounts are small or medium sized."

The true costs are far more than you think. Consider a family with a one million dollar investment portfolio: the difference between the reasonable fee of 1.25% for investment advice and the 4.6% that they were actually paying a stock broker is 3.35% every year. Their portfolio earns $33,500 less each year than it would have if they had gotten advice that was fairly priced and not full of trickery. Each year, that amount is leaving the family nest egg and going into the pockets of the broker, her bosses, and their company. That sounds like a lot of money. But the numbers get much more dramatic. It is fair to assume that extra $33,500 each year would be invested rather than spent. (After all, it is in the family's investment/retirement portfolio and they currently don't even realize that it is missing.) Let's suppose their investments get a total return of 6%. If the

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parents in our family are 35 years old, it seems reasonable to say this money would grow for another 30 years. So the extra amount that they would actually have, if they got fairly priced financial advice, is $33,500 each year in investments that grow 6% per year for 30 years. And that number is an astonishing $3,020,000.00

So the difference between staying with the broker from the nationally known, brand name firm and getting fairly priced financial advice is over Three Million Dollars 30 years from now. It is well worth it to investigate and take action.

"I assume that, with the exception of these hidden fees, all financial advice is more or less the same."

It is a very costly mistake to think that the quality of advice given by financial advisors is pretty much the same. It is not like going to the grocery store to buy produce, where the quality varies slightly but we know the suppliers are similar. It is not even like going to the doctor, where one doctor may have slightly better skills and training than another but they all work under the same protocols. Rather, financial advice is an area where the quality and value of what is offered varies as widely as you can imagine. Almost anyone can call themselves a financial advisor. Large firms sometimes hire people for their contacts instead of their skills. There are essentially no minimum education standards and there is little measure of what the so-called "advisor" truly understands.

The first problem with many financial advisors is that their own financial interests are in conflict with yours. They are in it to make money for themselves and their firms. Far too often, they make suggestions that are good for them rather than best for you.

The next problem is that too many stock brokers and financial advisors do not understand the very subject matter they are giving advice about. Truly comprehending the complex web of mathematics, market dynamics, tax implications, and research findings that make up modern investing is a pretty big task. Having graduated college with a few courses in economics is not enough. Taking a few months of training with a brokerage company will not do it either. It takes serious work, study, and a strong academic foundation to be able to give really valuable advice on these matters.

The final problem (for today) is that the world of investing has long been clouded by a campaign of marketing and persuasion designed to get us all looking at the wrong things. We are constantly being told that picking the right stock or fund is the key to doing well. (It almost surely is not because it cannot be done consistently.) We are also urged to do "research" on individual companies (even though hundreds of professionals have already uncovered every insight we could ever hope to find). Knowing which companies are strong does us no good in picking stocks that will go up more than the average. Mutual fund companies frequently urge us to invest in those funds that did best last year (even though they know full well that research proves that past performance is of little use in predicting next year's results).

You are best served by finding a financial advisor who understands investments, markets, diversification, taxes, and human nature. You want someone who is smart, well trained, honest, and willing to tell you the truth. And it would help if the person you work with is not too greedy. It is not so easy to find such an advisor but it is well worth the effort – the difference between an excellent financial advisor and an average one can be measured, over your lifetime, in millions of dollars.

ASK MARY

How much can I put in an IRA?

For year 2004, you can invest $3,000 in an IRA or Roth IRA. (Assuming you have that much earned income and are not above income limits.) If you are over 50 years old, this amount is $3,500. You have until April 15, 2005 to make your year 2004 contribution. For year 2005 contributions, the amounts have been raised to $4,000 or $4,500 if you are over 50. You can make your 2005 contributions any time between now and April 15, 2006.

For some people, the Roth IRA is a better idea than the Traditional. For almost everyone, contributing the maximum amount possible is a very good idea. If you have questions about which IRA is best for you or how much you should contribute, please contact us.