

TIME TO SAVE WITH CHRIS & DAVE

Volume 6, Issue 1
April 1, 2011



Chris G. Volk, CFP®



David J. Lutz Jr., CFP®

Inside this issue:

Fees	1-6
Tech Update	7
Kids Corner	7
Website of the Quarter	8
Tax Tip	8
Final Words	8

“A nickel ain’t worth a dime anymore.”

Famed New York Yankee catcher Yogi Berra penned the quote above. He is also responsible for such humorous one-liners as “it’s like déjà vu all over again” and “it gets late around here early.” I thought that Mr. Berra’s comical play on words was appropriate for this quarter’s newsletter because I wanted to talk about some of the internal costs and expenses of products within the financial services industry.

The truth is ever since unemployment skyrocketed and the stock market bottomed almost two years ago more people than ever are watching their pennies, nickels, and dimes. Hopefully Americans aren’t taking their investment advice from the U.S. Mint. The reason why I say that is it now costs 1.62 cents to make one U.S. penny

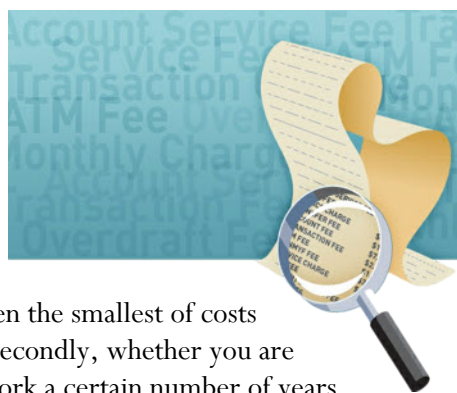
and 5.79 cents to mint one nickel.* Unlike the U.S. Mint, Chris and I do keep a watchful eye over the nickels and dimes that have been entrusted to us. Why? Well, first of all, we know that even the smallest of costs

can have a large impact on the bottom line. And, secondly, whether you are rich or poor, the reality is you are only going to work a certain number of years and earn a finite amount of money during your lifetime. The more successful one is in stretching their limited dollars on a variety of goods and services, the more likely one will be able to apply their remaining savings towards other goals, like retirement or traveling.

From what I have seen, the best savers are those that are very frugal with their money. These are consumers that refuse to buy things unless they are “on sale” or see a promotion that reads “buy one, get one free”, “free shipping”, or “0% financing to qualified borrowers.” While Chris and I can not provide everything for free to our clients, we do keep a keen eye on the costs and expenses of the various products and services that we recommend to each and every one of you. Today, I would like to go into more detail about some of those expenses. My hope is that you will acquire an even better understanding of them as well as enable you to be more conscientious and informed investors. Likewise, we also hope the following discussion will build a deeper trust in those you have hired to oversee your financial well being.

Account Fees

I would first like to begin by saying there is no thing as a “free” lunch. Every product and service you buy from a financial or insurance professional has some sort of cost associated with it. For example, some fees are due to the type of account that you own. Most IRA accounts have an annual maintenance fee. This fee can range from \$10-\$50. Some brokerage accounts will charge a fee if you close your IRA account. The chart on the following page outlines some of the Pershing Account Fees.



...continued on page 2

* “When It Comes to the Penny, Washington Makes No Sense”, by David Morris, Senior Political Editor, The Kiplinger Letter, Monday, January 10, 2011, www.kiplinger.com

❖ Annual maintenance fees for Traditional IRAs, Roth IRAs, SEP IRAs , and Education Savings Accounts	\$35
❖ Annual maintenance fees for Prototype SEPs and SARSEPs, SIMPLE Plans, Qualified Retirement Plans, and 403(b) Custodial Accounts	\$50
❖ Conversion of Traditional IRAs to Roth IRAs (per conversion)	\$25
❖ Termination Fee for all Retirement Accounts	\$75

In addition, some non IRA brokerage accounts have an inactivity fee that ranges from \$15-\$30. What this means is, if you don't place a trade in your brokerage account during the calendar year, you are charged that fee. (Please note that after several years of charging this fee, Pershing suspended it for 2010 and 2011.)

Advisor fees

Another layer of fees is not by the type of account they own, but depends upon how you decide to invest. For example, many people decide to invest on their own. These brave individuals are basically in charge of their own research, filling out their own paperwork and keeping up on the various laws and regulations within the industry. While this method is obviously the cheapest, it oftentimes does not produce the best results. What I mean by that is, back in 2008, when the market was falling extremely fast, Chris and I got more phone calls than ever from scared investors that realized they did not have the knowledge, patience, or time to continue to invest on their own. In turn, they came to a professional. If you think about it, this is fairly common and makes perfect sense. What I mean by that is, other than normal maintenance on my car, I couldn't begin to tell you how to fix many things that can go wrong with a vehicle. So, I take it to a mechanic instead. Similarly, the federal income tax code is so vast and complex, I take my taxes to an accountant to complete. For those who have difficulty saving and investing on their own, Chris and I are here to help. Both Chris and I are CERTIFIED FINANCIAL PLANNERS™. To receive this designation you must show competency in six critical areas, namely invest-



ment planning, income tax planning, retirement planning, estate planning, the financial planning process, and insurance and employee benefits. We also abide by a strict Code of Ethics. I just passed the CFP exam last year and, truthfully, it took three years of studying and ten years of work experience to pass the exam. So, remember, when you hire us, you are getting 44 years worth of combined knowledge, time, and service in exchange for your money. Financial advisors typically charge for their services in one of three ways. They are, commission, fee based, or hourly billing. Let me briefly elaborate on and share some of the advantages and disadvantages of each of these compensation models.

To begin with, hourly billing is exactly as the name implies. You pay the advisor based upon how much time he or she spends on your needs. This model is typically best when you want a one-time project completed and no further ongoing service. So, for example, if you would like an advisor to do a financial or retirement plan, this model would probably be the most appropriate. The problem with this model is if you would later decide to use the services of the financial planner again, there would be a second cost. Those cumulative costs could end up becoming substantial, whereby a commission or fee based model may be less expensive.

The second model is the commission model. In the commission model, the advisor is paid by the number of transactions. The more transactions you make, the more the advisor earns. This type of model is typically best for clients that only place a few trades a year, have a small overall balance, and do not require a high degree of service. I will say that the one major disadvantage of this model is the advisor is paid regardless of whether or not the investor makes money.

In order to align the interests of clients and advisors better, the fee based model was adopted. Under this model an advisor typically charges an annual management fee based upon the value of your accounts. If your account goes up in value, the

...continued on page 3

advisors fee will increase, and, if your account goes down in value, the advisors fee will decrease. Many investors like this model for the mere fact that most people want their money to either grow or retain principal. If the advisor does not do that successfully, his compensation shall be adversely affected. This type of fee arrangement is typically most appropriate for when you are investing a large sum of money, your financial situation is very complicated, or you require a high level of ongoing service.

Cost of Investing

A third cost of investing deals with the product you purchase. For example, when you buy a stock, you typically pay what is called a commission. Discount brokers may charge as little as \$7.99 per trade. The reason for this low cost is you are responsible for doing your own research and trades. For those clients that do not have the time or wherewithal to invest on their own, Chris and I are here to help. Unfortunately, the cost to buy and sell stocks through Ameritas Investment Corp. (AIC) is a little higher than \$7.99 per trade. Why? Well, a portion of each commission goes to Chris or myself for answering your call, offering our opinion on the purchase or sell, and ultimately placing the trade in your account on your behalf. Although the cost of any one trade needs to be considered, the more important issue to contemplate is the number of trades you place over your investing lifetime. The fact is investors that make less trades spend less on transaction costs than those who place more trades. In the end, the investor that places less trades, gets to keep more of his or her money in their own pocket. From what I have seen and experienced, I believe that the more you trade, the lower your lifetime return. A lot of that is due to the higher costs that actively trading incurs.

Since buying and selling individual stocks involves risks, some investors prefer to own diversified mutual funds instead. All mutual funds charge fees. Because small percentage differences can add up to a big dollar difference in the returns on your mutual funds, it's important to be aware of all the fees associated with any fund you invest in. Some fees are charged at specific times, based on actions you take, and some are charged on an ongoing basis. Fees are described in detail in each fund's prospectus, which you should be sure to read before investing in any fund.

Here are types of fees that may be charged on an ongoing basis:

- **Management fees.** These fees pay the fund's portfolio manager.
- **12b-1 fees.** These fees, capped at 1 percent of your assets in the fund, are taken out of the fund's assets to pay for the cost of marketing and selling the fund, for some shareholder services, and sometimes to pay employee bonuses.
- **Other expenses.** This miscellaneous category includes the costs of providing services to shareholders outside of the expenses covered by 12b-1 fees or portfolio management fees. You also pay transaction fees for the trades the fund makes, though this amount is not reported separately as the other fees are.

The following fees are based on actions you may take, so may or may not be amounts you pay:

- **Account fees.** Funds may charge you a separate fee to maintain your account, especially if your investment falls below a set dollar amount.
- **Redemption fees.** To discourage very short-term trading, funds often charge a redemption fee to investors who sell shares shortly after buying them. Redemption fees may be charged anywhere from a few days to over a year. So it's important to understand if and how your fund assesses redemption fees before you buy, especially if you think you might need to sell your shares shortly after purchasing them.
- **Exchange fees.** Some funds also charge exchange fees for moving your money from one fund to another fund offered by the same investment company.

...continued on page 4

- **Purchase fees.** Whether or not a fund charges a front-end sales charge, it may assess a purchase fee at the time you buy shares of the fund.

One easy way to compare mutual fund fees is to look for a number called the fund's Total Annual Fund.

One easy way to compare mutual funds fees is to look for a number called the fund's Total Annual Fund Operating Expenses, otherwise known as the fund's expense ratio. This percentage, which you can find in a fund's prospectus, on the fund's website, or in financial publications, will tell you the percentage of the fund's total assets that goes toward paying its recurring fees every year. The higher the fund's fees, the greater its handicap in terms of doing better than the overall market as measured by the appropriate benchmark.

For example, if you were considering two similar funds, Fund ABC and Fund XYZ, you might want to look at their expense ratios. Suppose Fund ABC had an expense ratio of 0.75 percent of assets, while Fund XYZ had an expense ratio of 1.85 percent. For Fund XYZ to match Fund ABC in annual returns, it would need a portfolio that outperformed Fund ABC by more than a full percentage point. Remember, though, that the expense ratio does not include loads, which are fees you may pay when you buy or sell your fund.

You should also be aware of transaction fees, which the mutual fund pays to a brokerage firm to execute its buy and sell orders. Those fees are not included in the expense ratio, but are subtracted before the fund's return is calculated. The more the fund buys and sells in its portfolio, which is reported as its turnover rate, the higher its transaction costs may be.

Understanding Loads

When you buy mutual fund shares from a stockbroker or other investment professional, you might have to pay sales charges called loads, which are calculated as a percentage of the amount you invest. Like commissions on stock or bond transactions, these charges compensate the broker for the time and effort of working with you to select an appropriate investment. The rate at which you're charged varies from fund company to fund company. In addition, companies may offer different classes of shares, which assess the charge at different times.

Class A shares have a front-end load, which is a commission you pay at the time you buy the shares. The average range is between 2 percent and 5 percent, though it varies. This amount is subtracted from the total you're investing in the fund. For example, if you invest \$1,000 in a fund with a 5 percent front-end load, \$950 of your investment would buy fund shares, and \$50 would go to your broker.

Class B shares have a back-end load, which you don't pay unless you sell your shares during the period the charge applies, which is usually up to seven years after purchase, though it could be longer or shorter. The load tends to drop, perhaps by a percentage point each year, and then disappears altogether. However, the annual fees that the fund charges on Class B shares are higher than the fees on Class A shares. Back-end loads are also known as contingent deferred sales charges (CDSC).

Class C shares may carry a level load, which a fund collects every year you hold the fund, or they may have a back-end load or CDSC, similar to B shares. Class C shares also tend to have higher annual fees than Class A shares, typically on a par with those that apply to Class B shares. In addition, C shares do not convert to another share class.

As their name implies, no-load funds do not impose sales charges and you typically buy shares directly from the investment company that offers these funds. The same funds may be available, with a load, from investment professionals. Remember, though, that while no-load funds have no sales charges, they may still charge 12b-1 fees, purchase fees, redemption fees, exchange fees, and account fees in addition to the operating fees that all funds charge.

Breakpoints

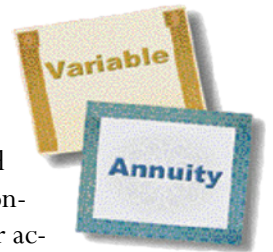
Sometimes load funds offer volume discounts for higher investment amounts, in much the way that supermarkets sometimes offer economy bargains for buying certain things in bulk. In the case of funds, your front-end load, or Class A share sales charges, may be reduced if you invest a certain amount. The amounts at which your sales charges drop are called breakpoints. The breakpoints are different for each fund, and your broker must tell you what they are and must apply breakpoints if your investment qualifies.

Breakpoint rules vary, but some funds let you qualify for breakpoints if all your investments within the same fund family—funds offered by the same fund company—add up to the breakpoint level. Some funds let the total investments made by all the members of your household count toward the breakpoint. In addition, some funds let you qualify for a breakpoint over time, instead of with a single investment, by adding your past investments to your new ones. You might even qualify for a breakpoint if you write a letter of intent, informing the fund that you're planning to invest enough to qualify for the breakpoint in the future.

A third common investment is variable annuities.

“You will pay several charges when you invest in a variable annuity. These charges will reduce the value of your account and the return on your investment. Often, they will include the following:

- **Surrender charges** – If you withdraw money from a variable annuity within a certain period after a purchase payment (typically within six to eight years, but sometimes as long as ten years), the insurance company usually will assess a "surrender" charge, which is a type of sales charge. This charge is used to pay your financial professional a commission for selling the variable annuity to you. Generally, the surrender charge is a percentage of the amount withdrawn, and declines gradually over a period of several years, known as the "surrender period." For example, a 7% charge might apply in the first year after a purchase payment, 6% in the second year, 5% in the third year, and so on until the eighth year, when the surrender charge no longer applies. Often, contracts will allow you to withdraw part of your account value each year – 10% or 15% of your account value, for example – without paying a surrender charge.



Example: You purchase a variable annuity contract with a \$10,000 purchase payment. The contract has a schedule of surrender charges, beginning with a 7% charge in the first year, and declining by 1% each year. In addition, you are allowed to withdraw 10% of your contract value each year free of surrender charges. In the first year, you decide to withdraw \$5,000, or one-half of your contract value of \$10,000 (assuming that your contract value has not increased or decreased because of investment performance). In this case, you could withdraw \$1,000 (10% of contract value) free of surrender charges, but you would pay a surrender charge of 7%, or \$280, on the other \$4,000 withdrawn.

- **Mortality and expense risk charge** – This charge is equal to a certain percentage of your account value, typically in the range of 1.25% per year. This charge compensates the insurance company for insurance risks it assumes under the annuity contract. Profit from the mortality and expense risk charge is sometimes used to pay the insurer's costs of selling the variable annuity, such as a commission paid to your financial professional for selling the variable annuity to you.

Example: Your variable annuity has a mortality and expense risk charge at an annual rate of 1.25% of account value. Your average account value during the year is \$20,000, so you will pay \$250 in mortality and expense risk charges that year.

- **Administrative fees** – The insurer may deduct charges to cover record-keeping and other administrative expenses. This may be charged as a flat account maintenance fee (perhaps \$25 or \$30 per year) or as a percentage of your account value (typically in the range of 0.15% per year).

Example: Your variable annuity charges administrative fees at an annual rate of 0.15% of account value. Your average account value during the year is \$50,000. You will pay \$75 in administrative fees.

- **Underlying Fund Expenses** – You will also indirectly pay the fees and expenses imposed by the mutual funds that are the underlying investment options for your variable annuity.

...continued on page 6

...continued from page 5

- **Fees and Charges for Other Features** – Special features offered by some variable annuities, such as a stepped-up death benefit, a guaranteed minimum income benefit, or long-term care insurance, often carry additional fees and charges. Other charges, such as initial sales loads, or fees for transferring part of your account from one investment option to another, may also apply. You should ask your financial professional to explain to you all charges that may apply. You can also find a description of the charges in the prospectus for any variable annuity that you are considering. Be sure you understand all the charges before you invest.”

Variable annuities are subject to investment risk, including possible loss of principal. Mutual Funds and Variable Annuities are sold pursuant to a prospectus which contains information on the investment objectives, risks, limitations, charges and expenses of the product and underlying investment options. Copies of prospectuses can be obtained from our office and should be read carefully before investing.

The last product that I wanted to highlight is life insurance. The premium on a life insurance policy is based upon three concepts: mortality, interest, and expense. The expense factor is the amount the company adds to the cost of the policy to cover operation costs of selling insurance, the investment of premiums, and payment of claims. Mortality is nothing more than the sharing of risk of death by a large group of people. The amount at risk must be known to predict the cost to each member of the group. Mortality tables are generally used by actuaries to give the company an idea of how much money it will need to pay in death claims each year. Interest refers to the investments that the insurance company invests your paid premiums in. These investments can range anywhere from bonds, stocks, mortgages, and real estate and are assumed to earn a certain rate of interest.

Taxes

No discussion about costs would be complete without a quick mention of taxes. Once again, it depends upon which type of account you choose to save your money in that determines whether or not taxes are owed. Life insurance policy death benefit proceeds and Roth IRA distributions (under certain circumstances) provide money that is tax free. Traditional IRA's, SEP IRA's, SIMPLE IRA's, 401(k)'s, 403(b)'s, and Variable Annuities allow you to defer income taxes till a later date. For non-qualified accounts such as individual, joint, or trust accounts, taxes are paid as you go. These non-qualified accounts are the ones I would like to focus my attention on.

The two taxes that are most important are dividend and capital gains. Dividends are profits that a company makes that are returned to shareholders. A capital gain is the difference between what you buy a stock or mutual fund for and what you sell it at. For 2011, you pay 0% in taxes on qualified dividends and long term capital gains (investments held longer than one year) if you are in the 10% or 15% tax bracket and 15% for all other tax brackets. Short term capital gains (investments held less than one year) are taxed at your incremental tax bracket.



To summarize, taxes, product, account, and advisor fees are just some of the costs associated within the financial services industry. Obviously, the better you can control and keep your expenses low, the more money you will keep for yourself. If you are ever unsure of what a particular investment or product costs, please be sure to ask the advisor or agent to disclose the particular fees. After all, frugal consumers pay attention to and are educated about the various costs for particular goods and services.

One last comment I would like to make about watching costs is sometimes you have to spend money to make money. What I mean by that is if you earn \$25 an hour at your job and it costs you \$20 an hour to pay someone to cut your lawn, why not hire someone to cut your grass and work an extra hour. By doing so, you just made an extra \$5. Likewise, most consumers will eventually part with some of their money, but only if and when they see a perceived value in the product or service they are getting in return. This quarterly newsletter is one of the values of having a relationship with our firm. No other individuals receive this publication or the knowledge that we share in it. Our hope is that even though our services do cost money; in the long run, working with us saves you money and prevents you from making many of the mistakes that other less experienced investors do when managing their own money. While we cannot guarantee that you will always be happy with our performance or services, we will always look for the investments and insurance products that meet your particular needs. In other words, the products that make the most sense for the least cents. Heck, that's a phrase I'm sure even Yogi Berra would appreciate. ☺



Important Dates to Remember

Friday, April 22, 2011 - Good Friday - Office Closed

Monday, May 30, 2011 - Memorial Day - Office Closed

Tuesday, June 21, 2011 - First day of summer

Important Technology Update

Since the topic of this quarter's newsletter was about pinching pennies, I thought it would be a great opportunity to make you aware that starting in January of 2012 Pershing will begin to charge \$1.00 per paper statement to all of those who have brokerage accounts. This specifically refers to those of you whose accounts begin with 6RF, 6UE, AEZ, or AGX. In order to avoid this charge and become more environmentally friendly, we highly encourage you to sign up for e-delivery of your statements. To do so, you must have a valid e-mail address. More information can be found on the comments section of your paper monthly statements or you may call one of us to assist you in signing up for this service



Getting A Big Refund This Year?

Why not save some of that money in a Traditional or Roth IRA. For 2010 and 2011 the maximum you can put into an IRA is \$5,000 if you are under 50 years old and \$6,000



if you are 50 or older. Please check with us or your accountant to see which type of IRA is best for you and your unique situation.

KID'S CORNER

Unscramble the following words about money:

eefs _____

axtse _____

avse _____

onmey _____

runefd _____

rtchiay _____

evig _____

ynmetpa _____

(Answers are on back page)

Tax Tip

Giving money to those less fortunate has always been an important fabric of our society. For that reason, the IRS allows you to deduct money given to particular charities from your federal income taxes. Unfortunately, you must itemize your tax return in order to deduct your charitable contributions. This rule hurts many seniors who give to charity but whose itemized deductions are less than the standard deduction. Thankfully, there is now a way for those who do not itemize to get a tax benefit. In particular, this strategy is best for people who are over the age of 70½, are required by law to take annual taxable distributions from their IRA's, and don't need the money to live on. Basically what you do is gift all or a portion of your IRA Distribution directly to your church or charity. When you do this, you are forgiven from paying any federal income taxes on the IRA withdrawal. I guess the point I am trying to get at here is, please think twice about giving a portion of your social security check or already taxed money to your church or charity this year. Instead, use the funds in your IRA that you had to take out of your account anyway and save some money in taxes. Please remember that the distribution from the IRA cannot come to you in any shape or form. The check must go directly to the charity. If you are interested in doing this, please don't hesitate to call us or your current IRA custodian. I think this is an absolutely wonderful idea for those seniors who like to contribute to charities, but are unable to take the charitable deduction because they can't itemize.



Website Of The Quarter

In our never ending quest to save our client's money, we would like to alert you to a new website for Pennsylvania residents called www.papowerswitch.com. In the past, your electric supplier was typically determined by which area you lived in. However, just a few years ago, the electric utility industry deregulated thereby allowing customers to shop around for the most competitive energy supplier. This website was designed to allow you to view the cost of electric utility providers in your area. To do so, simply go to the website, plug in your zip code, and the site will provide the name and cost of the various residential and commercial suppliers in your area. To see how your current supplier's price may compare, just click on each particular company and enter your monthly electrical usage from your most recent bill. Please note that while this site will give you a



side-by-side comparison of the suppliers in your area, this only shows a portion of your total bill. The other portion of your bill deals with the company that transmits and distributes the power. This company cannot be changed. For those of you who may be without internet access, you may call the Pennsylvania Utility Commission (PUC) at 1-800-692-7380 for more information.

Final Word From

In next quarter's issue I'm going to talk about a topic that is probably going to get a lot of press in the coming year or so and that is *inflation*. Stay tuned...

Kid's Corner Answer Key:

Fees
Taxes
Save
Money
Refund
Charity
Give
Payment



David J. Lutz Jr., CFP®
The Advisors Group of Pittsburgh
790 Holiday Drive, Foster Plaza 11
Pittsburgh, PA 15220
412-539-0055 x235
fax 412-539-0056
lutz@advisorsgroup-pgh.com

Chris G. Volk, CFP®
The Advisors Group of Pittsburgh
790 Holiday Drive, Foster Plaza 11
Pittsburgh, PA 15220
412-539-0055 x230
Fax 412-539-0056
volk@advisorsgroup-pgh.com

Securities and investment advisory services offered solely through Ameritas Investment Corp. (AIC). Member FINRA/SIPC. AIC and The Advisors Group of Pittsburgh are not affiliated. Representatives of AIC do not provide tax or legal advice. Please consult your tax advisor or attorney regarding your situation.