Rinehart Wealth Management
Greater Trust

Questions to Ask Your Wealth Management Firm

Are you a Registered Investment Advisor (RIA)?

- RIAs are governed by the Investment Advisors Act of 1940, a federal law enforced and interpreted by the Securities Exchange Commission (SEC). RIAs are, by law, held to *a fiduciary responsibility* that places the interests of the client before the advisor's interests. Brokers and broker-dealers are NOT fiduciaries. A broker's and broker-dealer's primary duty is to the employer, not the client.

May I see your current Form ADV?

- An ADV is a comprehensive summary that RIAs use to publicly disclose details about their business practices, credentials and disciplinary actions with the SEC and consumers of investment management services. You should visit www.adviserinfo.sec.gov to verify that the firm you are considering has filed an ADV and read the form.

Have you ever been the subject to Disciplinary Action?

Do you and/or your associates have CFP ®, CFA and/or CAIA designations?

- CFP ® (Certified Financial Planner ®): Requires university-level financial planning coursework and a 10-hour exam covering nearly 90 financial and economic topics. Three years of full-time financial planning experience is required to use the CFP marks and 30 hours of continuing education every 2 years is required to maintain them. Adherence to a code of ethics and standards is also required.
- CFA (Chartered Financial Analyst): Requires passing three exams, each of which demands a minimum of 250 hours of graduate-level self-study including corporate finance and financial statements analysis. Four years of investment work experience is also required in addition to becoming a member of the CFA Institute.
- CAIA (Chartered Alternative Investment Analyst): Requires passing two exams and is a respected designation available for alternative investing. Investment topics covered include hedge funds, private equity, commodities and managed futures.

Will I work with a team or an individual?

- It is important to have an expert in planning to develop your financial plan and an expert in investments to manage your portfolio. Knowing that you have your own team of professionals provides extra security that each aspect of your wealth management solution is handled appropriately. Additionally it gives you multiple perspectives and depth of knowledge about your particular situation.

521 East Morehead Street • Suite 580 • Charlotte, NC 28202 • (704) 374-0646 • Fax (704) 377-0746

Do you have an agreement clearly describing compensation and service level in advance of engagement?

- The agreement should be written down, easy to read and easily verbalized by the financial advisor. Ask to see a written copy.
- Components of an agreement or contract should include such items as:
  - Services of the Advisor
  - Confidentiality and privacy practices
  - Fee arrangements
  - Investment objectives and restrictions
  - Termination and assignment disclosures

Fees:

What are all of the ways you receive compensation?

- Fee-only: Asset based, hourly or flat fees. Many RIAs charge a percentage of assets under management, (1%-2% usually). It rewards the advisor *solely* for growing and protecting your portfolio.
- Fee-based: Advisory and planning fee plus a portion of the commissions you pay when you buy or sell certain financial products that the advisor recommends to you.
- Commissions only: Compensation from sales commissions on the investments they buy or sell for you. This structure may give an advisor an incentive to recommend that you buy or sell more often than necessary.
- Wrap fees: Single asset-based fee for both the advice and the execution of trades. Fees generally range from 1% to 3% (100 to 300 basis points) of the account value.
  (See Charles Schwab "How do I choose the right advisor? Or visit www.riastandsforyou.com)

Do you have a minimum fee?

- Some firms charge a quarterly or annual minimum fee. Retainer fees are another type of fee arrangement. Make sure you understand how fees are structured and choose the one that works best for your situation.

Do you receive referral fees from attorney, accountants, insurance professionals or mortgage brokers?

- If the advisor you are choosing receives referral fees from outside professionals this should be disclosed in the advisor's ADV and service agreement. Make sure the referral and fee arrangement does not bias subsequent advice you receive.

Do you receive on-going income from any mutual funds or annuities that you recommend in the form of 12b (1) fees, trailing commissions, or other continuing payouts?

- Referral fees and commissions can potentially create a conflict of interest. An advisor might be biased toward investments that provide financial benefit to them, but that are not necessarily in the best interest of the client.

Is there a separate fee for financial planning?

- Comprehensive planning is an important component of a wealth management solution. Any fees associated with financial planning that are not included in the investment management fee should be clearly stated.

Investments:

How do you choose assets for the portfolio?

- A set process should be easily discussed as to how the investment manager chooses assets for the portfolio. The portfolio manager or investment team of the firm you elect to work with should conduct mutual fund manager interviews and there should be a protocol in place for selecting equities. Ask to see the tools they use to select mutual funds and stocks. It will give you a better sense of the sophistication and research involved in client portfolio construction.

How do you diversify assets?

- A diversified portfolio generally has investments divided over multiple asset classes: cash, bonds, alternative investments, and US and international stocks. Diversification is about spreading your portfolio over multiple asset classes as well as within each sector. The goal is to limit volatility by reducing correlation in the portfolio so that when the market goes down, all of your portfolio does not go down simultaneously by the same amount.

Do you use stocks and Exchange Traded Funds (ETFs) to manage costs in the portfolios?

- The management fees combined with inefficient tax management can put the cost of investing in mutual funds north of 3.5%.[i] ETFs have a low turnover rate and can be more tax efficient. Stocks have no extra management fee associated with them. Because fees erode performance, using a combination of stocks and ETFs while minimizing the percentage of the portfolio in mutual funds, can help enhance performance over time.

Do you offer alternative investments?

- Alternative investments are attractive asset allocation tools that lower correlations with traditional asset classes. Alternative investments are not typical investment products like stocks, bonds or cash. Historically they have been held exclusively by institutional investors or high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity. It is important to understand if your capital will be locked up and for how long. It is not necessary to lock-up capital or pay higher fees to gain access to alternative investments. Going forward, alternative investments will become a necessary tool for controlling volatility and effectively managing wealth.

Will I have an in-house investment professional to research and explain each investment?

- It is important to have access to the investment team making the recommendations. Make sure there is an in-house team and an onsite CIO (Chief Investment Officer). If investment professionals are offsite you may not get the details and explanation in a timely or thorough manner.

Do you focus on tax-efficiency?

- Advisors should identify assets appropriate for taxable versus tax-deferred accounts. Tax-loss harvesting is important. The advisor should identify potential candidates to generate tax losses and find assets that should perform similarly so that performance is not compromised while generating tax losses.

How will you report performance?

At a minimum, you should receive:

- Account statements from the advisor and/or the custodian where assets are held
    - This is important in order to discuss documentation and disclosure with an emphasis on the ability to verify actions through an independent custodial statement.
- Quarterly summaries of investment holdings
- Comprehensive annual report

What type of performance can I expect?

- Performance expectations depend on many variables including risk tolerance, time horizon and needs.

Some further questions to ask include the following:

- Do you use a questionnaire to assess client tolerance for risk?
- Do you use an investment policy statement to guide investment decisions for your clients?
- What type of investments do you specialize in and what is your investment style?
- What is the decision process around selecting investments?
- How does the investment advisor manage volatility and downside protection?

Planning:

Do you offer comprehensive planning as well as investment advice?

- Budgeting, tax planning, estate planning, insurance needs, education funding, retirement planning are all components of comprehensive planning.
- Coordination of your personal financial goals with your investment goals helps to ensure that all your resources are working together for your future.

Are you and your associates NAPFA Registered Advisors?

- National Association of Personal Financial Advisors (NAPFA) is the country's leading professional association of Fee-Only financial advisors. To be considered for membership, you must hold either the CFP ® or CPA/PFS designations, you must submit a comprehensive plan for peer review and adhere to a code of ethics. You must also complete 60 hours of continuing education credit every two years in order to maintain your NAPFA membership.

[i] Tom Roseen, *Taxes in the Mutual Fund Industry – 2010: Assessing the Impact of Taxes on Shareholders' Returns*. Lipper, A Thomas Reuters Company, April 2010.