Financial Advisors' Compensation…Revealed!

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Have you ever wondered how financial advisors are paid? This report gives insightful information on the fees you pay when you purchase or sell investment securities.

Financial advisors fit in one of four compensation categories:

1. Salary-based: The advisor works for a company; when you pay for your services, the company pays the advisor a salary.

2. Fee-based: The advisor earns fees for advice or for specific tasks at an hourly rate, or receives a percentage of your assets and/or income.

3. Commission-based: The advisor is paid a commission for the products (investments).you purchase.

4. Fee and commission-based: The advisor earns both fees and commissions.

As a client, one of these types of compensation may work best for you.

The Good News

When you work with Synergy Financial Management (SFM) advisors, your fees will be lower. Lower fees mean you retain more of your investment's principal and returns…increasing your wealth and allowing you to build your wealth more rapidly.

Our Competitive Advantage Is Your Competitive Advantage

Because SFM both creates and supervises every step of the entire investment process and therefore has no need to outsource the management of your money, several layers of middleman fees are eliminated. This means you pay fewer fees and retain more return, benefiting your wealth creation.

Surprisingly, many financial advisors do not possess professional money management skills, tools and the techniques necessary to manage your money, so they must outsource the investment management process to those who can. This increases the layers of fees you pay, which reduces the returns you would otherwise receive. Why would you hire an advisor to manage your money that is not fully capable of managing your money in the first place? By cutting out the middleman, you save money on fees and expenses, and these savings can be used to further increase your earnings.

At Synergy, these unnecessary layers of fees are significantly reduced, and some are completely eliminated. Moreover, you are able to speak with every member of the Synergy team making decisions on your behalf. Our firm's Chief Investment Officer (CIO) and lead portfolio manager, as well as our Senior Financial Analyst, are both personally accessible and responsive to your inquiries. This is an extremely significant benefit! We believe it's important to know and be able to access the people in whom you place your trust for achieving your financial freedom. Large Wall Street firms never offer a personal conversation with their portfolio managers.

With Synergy, there is no middleman between our investment team and your financial advisor. Your financial advisor is an important and informed member of the investment committee, actively participating in the investment management process. You always receive better service because there is no middleman separating you from the counsel you need.

Advisory Fee Layers: (These do not include trading or regulatory costs.)

Fee	Traditional Advisory	SFM Advisory
Financial Advisor Fee	1-3.0%	Below 1.75%
Mutual Fund Fees	.35% to 3.0%	.35% to 1.5%
ETF Fees	.2% to .9%	.05% to .9%
Separate Account Manager	.4% to 2.0%	0%
Overlay Manager	.1% to .5%	0%
Sponsor Fee	.4% to .65%	0%
Custodian Fee	.03% to .15%	Not Applicable

The SFM individual stock and bond portfolios also do not charge any extra management fees, as the management costs are already included in the Synergy advisor fee.

The information listed in the table above is typical of the range of fees assessed by contemporary financial advisors and their companies. It's important to always carefully read your advisory disclosure documents and your specific client contract to identify the exact details about the fees you are being charged.

Now that you understand how you will benefit financially through the competitive fee advantage offered by SFM, let's review additional information about the different types of fees other investors have to pay.

Mutual Funds: Introduction to their Fees and Expenses

Investing costs are always a critical factor, affecting the results of your net return. Understanding how mutual funds assess fees and expenses can make a big difference in minimizing their effect so you can retain a higher bottom line. Some costs cannot be avoided, but knowing how these fees and expenses are levied could help you make better choices. It's possible that what appears at first to be the best choice may actually have hidden costs, while a fund that initially seems expensive may be the best deal because of the value you'll receive.

Mutual fund costs generally fit into two categories: sales charges and annual expenses. Sales charges are sometimes referred to as a “load”; this is the commission paid to the broker handling your purchase, and sometimes when handling the sale. This fee is deducted from your investment. Some funds are “no load” funds, meaning there is no commission.

All funds have operating costs and charge annual expenses. These include management fees, 12b-1 fees for the distribution of information about the fund and for servicing the fund, and administrative expenses in general. These expenses are paid to the fund before returns are calculated

There are typically three classes of shares offered by mutual funds, and fees are associated with each of these classes. Class A, Class B, and Class C shares each have a different fee structure offering the investor the opportunity to choose the benefits and expenses they prefer.

Understanding the Value of Loads

Many investors assume that a no-load fund is better than having to pay a load fee, but this is not always true. Front-end loads are a fee paid upon purchase, and back-end loads are paid when the fund is sold. Class A shares are generally front-end fees, and Class B shares are usually back-end fees.

Front-End Loads

If you’re considering the purchase of a large number of shares for a long-term investment, a front-end load may be your best choice. By purchasing Class A shares, your initial investment amount is immediately reduced because of the fees you pay up-front; however, Class A shares may provide discounts, called breakpoints, with the purchase of certain quantities of shares, and this will decrease the percentage of the sales load.

Tony has decided to spend $20,000 to purchase Class A shares with a sales charge of 4%, incurring a cost of $800. This means that $19,200 will be applied to the purchase of the Class A shares. Tony sees that the fund has a breakpoint at $30,000 and another at $50,000. Therefore, if Tony invests an additional $10,000, the breakpoint sales charge will be reduced to 3½%, and if Tony chooses to invest a total of $50,000, the breakpoint sales charge drops to 3%. At each breakpoint, the commission reduces the cost of purchasing the Class A shares, meaning that more of Tony's capital will be invested in the fund to work on Tony's behalf. (This is a hypothetical example for illustrative purposes only.)

Sometimes you may acquire breakpoint discounts with a letter of intent to purchase more shares by a specific date, or may receive a discount by making additional purchases in other investments offered by the family of funds; this is known as a right of accumulation. The fund prospectus will provide information on how to qualify for these breakpoint discounts.

Under the Financial Industry Regulatory Authority (FINRA), front-end charges can never exceed 8.5%, and typically are no higher than around 6%. Generally, Class A shares are lower than the fees for the other share classes.

Back-End Loads

A back-end load is sometimes referred to by different names. Sometimes called a contingent deferred sales load (CDSL) or a contingent deferred sales charge (CDSC), back-end loads are intended to keep investors in a fund for an extended period of time. One of the values of having a back-end load fee is that all of your money is immediately put to work in your selected investment. Sometimes the fee decreases over time, and there are occasions when no sales charge is assessed at all because of the length of time the investor has remained in the fund.

Mary has selected a fund she intends to keep for 10 years. According to the prospectus, the fund has a 6% CDSL which decreases 1% for every year Mary stays invested. At *the end of the first year, the deferred sales load is reduced to 5%, and at the end of the second year to 4%. Should Mary hold her position for six years or longer, the sales charge would be 0%.*

Be aware that the back-end Class B 12b-1 fees may be much higher than the fees for Class A shares. You should take the time to calculate the cost of investing your funds over a lengthy time period because the accumulated fees may be detrimental.

Remember, too, that the breakpoint discounts you receive with front-end loads are not available with back-end loads. You should also be mindful that the sales charge will be due when you sell your position, so if you release your holding prematurely or when the fund is underperforming, the sales charge could be larger than you expected. It would be wise to regularly review when your funds are eligible for a reduced sales charge, and when the sales charge will be terminated.

Class C shares are often for investors who are interested in a short-term investment period, and their CDSC is typically less than Class B shares. Similar to Class B shares, Class C shares do not provide breakpoints for large purchases. The sales charge typically does not diminish steadily over time, but may do so after a certain period of time has passed.

Common Operating Cost Expenses

The following six fees are categorized as operating costs, and most mutual funds collect them. These fees are not withdrawn from individual investor’s accounts, but are paid from the fund’s assets before distribution. Some funds charge all these fees, while others are selective.

1. Management fees: These fees pay the fund’s investment manager or management company that is purchasing and selling investments.

2. 12b-1 fees: These fees cover the fund’s advertising costs and sales expenses.

3. Reinvestment fees: A fund may charge for reinvesting your distributions in the fund.

4. Exchange fees: When switching assets between funds within the same fund of family, exchange fees may be charged.

5. Custodial fees: The financial institution acting as the custodian receives payment for its services.

6. Administrative fees: These fees are for miscellaneous services specific to the fund's operation.

Expense Ratio

This ratio explains the relationship between the cost of the fund's business activities and the percentage of the fund's assets. This ratio can be as high as 2% or 3% annually, which may be regarded as a red flag. High expenses erode your net return over time.

It's important to remember that some fees may not be included in the calculation of the expense ratio. Sales commissions, trading costs, and taxes may be calculated separately, so while the expense ratio might seem reasonable, there may be more expenses to include in your own cost calculations.

To Load or Not to Load?

At first glance, being able to avoid paying a sales commission with a no-load fund might seem like a great idea; with no initial costs, all your funds start working for you immediately. However, no-load funds do have fees and charges. One of these may be a redemption fee, should you redeem your shares within a short period of time, such as 60 or 90 days; this fee is intended to restrict excessive trading.

A no-load fund may incur other expenses such as a transaction fee when buying shares, and reinvestment fees and exchange fees. Also remember that even if your annual fees are a very low percentage of your assets, these fees can add up over time and may even exceed the fees you would have paid with a front-end load fund.

If, however, you are considering the purchase of a fund with a sales load, the fund's anticipated performance should justify this cost with its potential for an attractive return; after all, the load diminished the amount of funds you initially invested.

When comparing load versus no-load funds, your analysis must be sufficiently thorough so you can more accurately identify which of the funds will serve you best over time.

The Importance of Reading the Prospectus

Every investment company must file their fund's prospectus with the Securities and Exchange Commission (SEC) and must distribute the prospectus to all its investors and potential investors. The prospectus contains important financial statements presenting the fund's strategy, its historic performance, and information about how it expects to perform in the foreseeable financial environment. Included in the prospectus is a fee table, and this information should be studied so you can consider its impact on your potential returns and when making comparisons with other funds that are candidates for your investment.

Remember there may be other fees not listed in the fund's prospectus that are an obligation, such as asset-based fees, which are fees paid annually based on the account's value. These additional fees should be included in your accounting of the fees you are paying.

Typical Costs

A lot of activity goes into managing an investment account, and this usually means a multitude of fees for many services. These fees cut into an investor's bottom line, decreasing the portfolio's return.

Think what this will mean for your clients! Think what this will mean for you!

Because Synergy has an all-in-one service performing all the financial investment tasks in-house, the many layers of fees and expenses are condensed, allowing Synergy to provide exceptional service at a much lower fee…increasing your bottom line.

It all starts with a conversation. Please call me and let's schedule a complimentary meeting.

Sincerely,

Joseph M. Maas