Marathon Strategic Advisors, LLC

500 Market Street, Suite 610, Steubenville, OH 43952 · (740) 282-5198 · Toll Free (866) 435-4224 · www.mstrategic.com

Protecting the Individual Investor

Don't Let Wall Street Chisel Away at Your Future Wealth!! Their High Expenses and Conflicts of Interest Are More Costly than You May Know.

By Nicholas E. Terezis, CFA, MBA

Over the past fifteen years, the employment of Fee-Only Investment Advisors has slowly but surely grown in popularity among sophisticated investors. The reason for this is quite simple. Fee-Only Investment Advisors are usually less expensive, don't have conflicts of interest, and have a fiduciary duty to put the client's interests before their own interests.

As Exhibit 1 illustrates, Fee-Only Investment Advisors[2] are the least expensive among investment professionals. There are two reasons for this. First, Fee-Only Advisors are not brokers. As a result, they do not benefit in any way from recommending the purchase or sale of a security or financial product. This is not the case for brokerage firms and their agents. Brokers benefit handsomely from frequent transactions. As a result, the average turnover[7] of a portfolio managed by a broker (including wrap-fee accounts) is significantly higher than Fee-Only Advisors.

The non-stop advertising of brokerage firms showcasing

Exhibit 1

Fee-Only Investment Advisors Are the Least Expensive to Investors[1]

	Fee-Only Investment Advisor[2]	Broker with Wrap-Fee (Fee-Based)	Broker Selling Mutual Funds	Full-Service Broker Selling Stocks	Firms Selling Variable Annuity
Expenses You See					
Investment Management Fees[3]	1.00%	1.00%	1.58%	-	1.10%
Trading Comission[4]	0.02%	-	-	1.92%	-
Mortality and Expense Risk Charge[5]	-	-	-	-	1.40%
Administration & Miscellaneous Fees	-	-	-	-	0.15%
Total: Expenses You See	1.02%	1.00%	1.58%	1.92%	2.65%
Expenses You Do Not See					
Impact Rate[6]	0.23%	0.23%	0.23%	0.23%	0.23%
Annual Portfolio Turnover[7]	20%	112%	112%	112%	112%
Total: Expenses You Do Not See[8]	0.09%	0.52%	0.52%	0.52%	0.52%
Total Annual Expenses	**1.12%**	**1.52%**	**2.10%**	**2.44%**	**3.17%**
Other Expenses					
Load[9]			5.20%		
Surrender Fee[10]					6%-17%

Notes, Sources, & Calculations:

1 Expenses are based on a $1 Million Portfolio.

2 Assuming the Fee-Only Advisor does not have any soft dollar brokerage arrangements, is independent, and is long-term oriented.

3 Investment Management Fees are paid either directly from the client to the manager, or are assessed by the mutual fund manager upon the funds. Source: Investment Company Institute, Barron's, National Association of Variable Annuities (NAVA), and Marathon Estimates.

4 Trading Commissions are the ticketed price shown on trade confirmations. Note: Fee-Only Investment Advisors are not brokers so they generally do not receive any compensation for transactions. Calculation: Fee-Only assumes 12 trades per year at $20 per trade, and Full-Service assumes 50 Trades per year at $384 per trade. Source: SmartMoney.com, and Marathon estimates.

5 The investor death benefit is only worth 0.05% - 0.07% when viewed purely as an insurance contract. The rest of the annual 1.40% expense goes in the pockets of the issuer. Source: NAVA

6 Impact Rate is the non-commission cost associated with executing a trade. It is the ideal price less the percentage mark up observed while buying or selling a stock [(best buy price + best sell price) / 2 – executed price]. Source: Plexus Group.

7 Annual Portfolio Turnover is the total dollar amount of purchases in a portfolio divided by the average value of the portfolio. Source: Jack Bogle, Vanguard Group; William Barrett, Forbes; and Marathon estimates.

8 Calculated: [Impact Rate x Annual Portfolio Turnover x 2]

9 Average maximum load for equity front-end load shares. Some funds offer breakpoints discounts for larger investment amounts. Source: Investment Company Institute, and Morningstar, Inc.

10 Surrender fees are almost always assessed if an Annuity investor tries to redeem their shares early. This fee usually decreases to zero after owning the annuity for 7-9 years.

their low commissions would make one believe that investor trading expenses are lower now than at any time in history. After all, in the past 10 years we have seen brokerage commissions go down by 23%[11]. However, what brokers do not point out is that during that same period the average volume on the NYSE has gone up over 600%! In other words, brokers have used the ploy of lower commissions to detrimentally convince investors that they should trade more. As Exhibit 1 shows, the greater the turnover in a portfolio, the greater the "Expenses You Do Not See." In the 1950s the average portfolio turnover was 25%, and now it is approximately 112%[12].

Exhibit 2

The Motivation of People and Firms is often Dictated by How They are Compensated

	How the Firm is Compensated:	How the Individual with Whom You Speak is Compensated:
Fee-Only Investment Advisors	Directly by the client at a pre-determined rate.	Paid only by the Fee-only Investment Advisory firm (typically a salary).
Brokers with Wrap-Fees (Fee-Based)	Directly by the client at a pre-determined rate; transaction expenses; commissions from mutual fund companies; investment banking relationships.	Usually receive 40%-50% of the fees collected by the brokerage firm. High turnover is subtly or overtly encouraged.
Brokers Selling Mutual Funds	Transaction expenses; commissions/loads from mutual fund companies, and trailing payments from mutual funds.	Usually receive 40% of the load and trailing payments. High turnover is subtly or overtly encouraged.
Full-Service Brokers Selling Stocks	Transaction expenses; and investment banking relationships.	Usually receive 40% of the commissions collected. High turnover is subtly or overtly encouraged.
Firms Selling Variable Annuities	Commissions from insurance companies or other annuity issuers.	Usually 5-8% of the amount invested!

Exhibit 3

When Managed by a Fee-Only Advisor, a $1 Million Investment Growing at 12% Annually Would be Worth $62.34 Million After 40 Years. In Comparison, an Annuity Would Only be Worth $29.51 Million.

Total Annual Expense	Value of $1 Million Invested For: 10 Years	20 Years	30 Years	40 Years	50 Years	Fee-Only Investment Advisors Are the Least Expensive
0.00%	3.11	9.65	29.96	93.05	289.00	
1.00%	2.84	8.06	22.89	65.00	184.56	
1.12%	2.81	7.90	22.19	62.34	175.16	← Fee-Only Investment Advisors
1.52%	2.71	7.34	19.88	53.87	145.94	← Broker with Wrap-Fee (Fee-Based)
2.00%	2.59	6.73	17.45	45.26	117.39	
2.10%	2.44	6.26	16.10	41.37	106.34	← Broker Buying Mutual Funds
2.44%	2.49	6.21	15.47	38.56	96.07	← Full-Service Brokers Buying Stocks
3.00%	2.37	5.60	13.27	31.41	74.36	
3.17%	2.33	5.43	12.66	29.51	68.78	← Variable Annuities
4.00%	2.16	4.66	10.06	21.72	46.90	
5.00%	1.97	3.87	7.61	14.97	29.46	

The second reason why Fee-Only Advisors are the least expensive is because they are not paid to sell any products (i.e., mutual funds, insurance, annuities, or stocks). Fee-Only Advisors provide a service, and that service is doing whatever is best for the client. On the other hand, brokers are paid to push certain products. By becoming more knowledgeable about how people and companies are paid (see Exhibit 2), you can become more adept at distinguishing the difference between solid advice and shameless self-interest.

Most investors do not fully appreciate the magnitude of how lower expenses can increase an investors wealth over time (see Exhibit 3). Don't let brokers chisel away at your future wealth. Make some smart choices today by hiring a Fee-Only Investment Advisor, and tomorrow you may have twice as much money.

[11] Source: Theodore R. Aronson, Aronson & Partners.
[12] Source: Jack Bogle, Vanguard Group.

Marathon Strategic Advisors is a fee-only investment advisor that specializes in creating customized investment portfolios based on the client's unique financial goals, risk tolerances, return expectations, investment horizon, tax brackets, and cash flow needs. Please do not hesitate to call us for more information on our company and the services we provide.

Nicholas E. Terezis is President and Chief Investment Officer of Marathon Strategic Advisors, LLC.

For more information contact Nicholas E. Terezis, CFA, MBA
Phone: 740-282-5198
Email: nterezis@mstrategic.com
Web site: www.mstrategic.com