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THE INDEPENDENT ADVISOR

Quarterly Client Newsletter

How to Safeguard Your Investments

It seems as if every month yet another article appears about a financial advisor who has run off with his clients' money. A couple of weeks ago, the Wall Street Journal carried a story about John McDonald, a charismatic money manager who promised African-American investors that he would pry open "a white man's Wall Street" and realize big Internet stock profits for them.

Many investors jumped into McDonald's program. Many actually received checks representing alleged profits. But then it all fell apart, revealing that there were in fact no profits, but rather a Ponzi scheme, i.e. money paid to investors came from other investors rather than from the portfolio.

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How can you protect yourself from unscrupulous people and what should you look for by way of safeguards? In deciding what advisor you should trust, I suggest that you interview the advisor and see what their position is on the following issues:

First of all, an advisor can run off with money only if it's in his or her name. So be sure that

you never write a check for deposit into your investment account in your advisor's name, but rather to a so-called "custodian," like Charles Schwab & Co., or TD Waterhouse.

Secondly, give your advisor only a limited power of attorney to buy and sell authorized securities, e.g. mutual funds or stocks, within your portfolio. The advisor should never have

"...ask your advisor to fully disclose, upfront, all fees and commissions charged in managing your portfolio and buying and selling stocks and mutual funds..."

withdrawal power, except to ask the custodian to send, at your request, a check from your account. But that check is always going to be made payable to you, not the advisor, and it will always be sent only to your address of record, never the advisor's address.

Make a decision about whether or not you want the advisor to have "discretionary powers" in the account. Granting discretion will not allow your advisor to run off with your money, but it could cause some surprises in the portfolio at the end of the year. I work on a non-discretionary basis, meaning that I implement the investment plan presented to and approved by the client. Whenever I veer materially from the plan, I contact the client for prior approval.

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Finally, ask your advisor or broker to fully disclose, upfront, all fees and commissions he or she might charge for a) management fees and b) buying and selling stocks, bonds and mutual funds on your behalf. Ideally, especially if the advisor is fee-only, recommended mutual funds will be no-load, with no hidden fees. There are many broker-sold mutual funds, however, that have 12b-1 fees or what are called “trailing commissions,” that will never show up on your statement. Such expenses will significantly impact the kind of return you get on your portfolio. A reputable advisor will be able to tell you exactly what fees will be charged and won't mind you asking.



How To Save Money on Home Insurance

Insuring your home has gotten more expensive in each of the past five years, according to Lorreta Worters of the Insurance Information Institute. There are ways, however, to hold cost down on your policy:

- ⇒ **Raise your deductible** – the higher your deductible, i.e. the amount you pay before your insurance kicks in, the lower your premium. The average nationwide is \$500, so that would be your out-of-pocket expense. Consider raising your deductible to \$1,000, if you feel you could afford to pay that amount if something

happened to your house. Look at it this way: you may be able to save as much as 25%, and most likely you'll submit a claim only once every 10 or 15 years.

- ⇒ **Insure you car with the same insurance carrier** – some insurers give you a 5 to 15% discount if you insure both your home and car(s) with them.
- ⇒ **Don't insure the value of your land** – when figuring out how much your house is worth, don't include the value of the property. Otherwise, you'll be paying more than you should.
- ⇒ **Home improvements** – insurers may cut up to 15% from your premiums if you install smoke alarms, deadbolt locks and burglar alarms. Also, modernizing plumbing and heating in some older homes may trigger cuts.
- ⇒ **Group and senior discounts** – check with your employer or professional association to see if there is a group policy available. Also, for policyholders over 55 years old, some insurers offer discounts of 10%. “Retired people are home more often,” says Ms. Worters. “They maintain their home better, and they're more likely to spot a fire early or discourage a burglar.”

This newsletter is published on a quarterly basis as a service to our clients. Independent Financial Advisors believes that an informed investor is our best client.

Comments? Questions? Feel free to contact us at 914-764-0367.

ABOUT THE ADVISOR...

Christopher Kuehne is an independent, fee-only, Certified Financial Planner (CFP) and Registered Investment Advisor. He has worked in the financial services industry for 18 years in various capacities, including 12 1/2 years on Wall Street as a Vice President at Merrill Lynch and Bankers Trust Company. Mr. Kuehne is a member of the Financial Planning Association and the National Association of Personal Financial Advisors (NAPFA).