

Frequently Asked Questions

1. What services do you provide?

We provide sound financial planning advice regarding your tax situation, investments, insurance, estate, retirement, education, and general financial matters. We offer an ongoing service of tracking all aspects of financial plan implementation for those clients who choose an annual service contract. We do not sell any type of investment product, and we are not associated in any way with any other firm. Ours is a fee-based service, and we do not receive commissions for any products that may be recommended in a client's financial plan. By providing a fee-only service, we can assure you that all recommendations we make to you are objective and based entirely on your best interests. In fact, as Registered Investment Advisers, we are held to a "fiduciary standard," which requires that all recommendations we make **must** be in your best interests.

2. What is a Registered Investment Adviser?

An Investment Adviser is a fiduciary who has a duty of undivided loyalty to his or her investment advisory clients and must deal fairly and honestly with them. Any person or entity that holds itself out as a financial planner in Montana is required to maintain a current investment advisory registration with the Montana State Auditor. This registration must be renewed on an annual basis. See #24 for further information about the CFP® designation.

3. Whom do you serve?

Currently we work primarily with individuals and trusts, and may, in the future, provide financial planning as an employee benefit for businesses. In the latter case, the individual, rather than the business, would continue to be our client. Our "typical" client is an individual or couple who are at or are nearing retirement, with an investment portfolio of approximately \$600,000. Of course, many of our clients also fall outside of these parameters.

4. Who can benefit most from your services?

Anyone who has a financial, tax, or investment question, or who wishes to plan prudently for his or her financial future stands to benefit from our services. Furthermore, persons who desire an integrated, more sophisticated level of financial planning services may find our program appealing.

5. How much money must I have in my portfolio to be able to use your services?

There is no minimum or maximum dollar requirement. People with little or no assets also have financial needs and goals. Usually the sooner an individual or couple begins an integrated financial program, the sooner they will benefit. For ongoing portfolio management services with quarterly reports and meetings, we typically require a portfolio of at least \$500,000.

6. What is a financial plan?

A financial plan is an in-depth review of your financial situation. It takes into account your goals and objectives and focuses on income tax planning, asset management, estate planning, risk management (insurance), educational planning, and retirement. The plan analyzes and recommends ways that you can achieve your financial objectives. See # 23 for further information about plan content.

7. What service do you provide after completion of the plan?

Implementation of your financial plan is part of the planning process. We work with the client after completion of the financial plan, on retainer for up to a year, to make sure the plan is successfully implemented. This follow-up is included in the price of the financial plan. In those cases where there is some unusual change in the client's financial situation during the year following completion of the financial plan, we typically offer financial advice on the new situation without an additional charge. If we feel it will be necessary to charge an additional fee, we will make that known to the client before providing any additional services. Typical changes in financial situations that we have dealt with in the past without charging additional fees include inheritance, job changes, and death. In all cases the goal is to keep the financial plan current.

8. Do you only provide complete financial planning programs?

No. Although a complete program may be beneficial, we can limit our advisory services to your specific needs. Approximately 90% of our work at this time is for specific topics or asset management with new and existing clients, while the other 10% is for providing integrated financial plans for new clients.

9. What is asset management?

By asset management, we mean recommendations based on a method of developing investment portfolios that applies principles of modern portfolio theory or asset allocation. This method was first developed by two professors in the 1950s and later refined by a third. The three professors shared the Nobel Prize for economics in 1990. Asset allocation has become the favored portfolio management technique of most major institutions. The model uses four key elements in evaluating possible investment portfolios: average returns, standard deviations, correlation coefficients, and Sharpe ratios. A computer model that optimizes portfolio return for given levels of risk, as measured by standard deviation, is used as a starting point in portfolio development. Goals and objectives of the client are then used to further modify the portfolio recommendations to arrive at a unique solution that we believe has the best chance of meeting those goals and objectives over time.

Our asset management service does not include what the Securities & Exchange Commission (SEC) refers to as "continuous and regular supervisory or management services." We do not have discretion to trade in client accounts – only the client has control over purchases and sales of securities in their accounts. We provide necessary applications and other documents to assist clients with implementing the recommended asset allocation.

For clients who choose the asset management service, we are on retainer for the advisory contract period (typically a year). During the contract period we are available to reply to client requests for advice when unforeseen situations arise, such as a change in employment or market conditions. At the end of the advisory contract period the client can choose to renew or discontinue the asset management service.

In addition, for clients with sizable portfolio assets, typically greater than \$500,000, our asset management service includes a quarterly review of their portfolio.

10. What is included in an Advisory Contract?

An advisory contract outlines the services that we will provide to the client and the cost of those services. It will also identify what information, if any, we need to get from the client before we will be able to complete the client project. We also define the length of the contract period. The advisory contract will be approved by the client before we begin working on any client project.

11. Do you offer money management?

No, not in the sense that we control any client funds. It is the responsibility of the client to make the final decisions regarding financial matters. All recommendations will be specific, and adequate assistance will be provided to the client to fully implement the financial plan or portfolio recommendations. We do not assume discretionary authority over client funds.

12. For what types of securities do you provide advice?

We provide advice for equities, corporate bonds, commercial paper, bank deposits, U.S. government and municipal securities, mutual funds, fixed and variable annuities, and real estate limited partnerships (tax shelters). We do not provide advice for diamonds, art, other collectibles, options, and/or commodity futures.

13. What method of analysis do you use to analyze investments?

We use a fundamental approach which considers various economic conditions, earnings, industry outlook, the political environment (as it pertains to the investment), historical data, price-earnings ratios, dividends, general level of interest rates, company management, and tax implications. We also employ what is commonly referred to as technical analysis, but only as a potential means of providing portfolio protection during periods of severe declines in the stock market.

For portfolio analysis we typically use the Portfolio Management Software Package optimization model developed by Dr. David Nawrocki of Villanova University. We use monthly total return data for each individual mutual fund in the portfolio from *Morningstar Office* as input data for the portfolio optimization model. For portfolio growth projections we employ Monte Carlo simulations using rates of return and standard deviation data from the optimization model.

14. Do you guarantee investment performance?

No.

15. How much do you charge for planning services?

Our current fees range from \$100 to \$140 per hour for financial planning consulting. The fee for Associate Financial Planners Jill Tripp and Richard Marshall is \$100 per hour, and for Fred Stewart, the Senior Financial Planner, the fee is \$140 per hour. However, in most cases, we will quote a flat fee for a proposed project. The typical cost for a full financial plan ranges from \$5,000 to \$15,000, depending on the complexity of the financial situation.

Asset management recommendations will typically be provided at an annual cost based on the amount of assets analyzed at the beginning of the contract year. For portfolios up to \$1 million, the asset management recommendation fee is 0.85% of portfolio value. Between \$1 million and \$3 million, the fee is \$8,500 plus 0.75% of the portfolio value above \$1 million. Above \$3 million, the fee is \$23,500 plus 0.6% of the portfolio value above \$3 million.

Fee examples:

Portfolio Size	Annual Fee
\$500,000	\$4,250
\$1,000,000	\$8,500
\$2,000,000	\$16,000
\$3,000,000	\$23,500
\$5,000,000	\$35,500

Quarterly client meetings to review portfolio results are included for portfolios exceeding \$500,000 at no additional charge.

16. If I use F. Stewart & Associates to develop an investment strategy, am I obligated to purchase the recommended products?

Absolutely not. Product recommendation is made based upon our analysis of your financial situation. Although we hope clients will implement their financial plans, you are under no obligation to purchase recommended products or make the recommended changes. As mentioned earlier, we receive no commissions from any products that we recommend.

17. Are the fees tax deductible?

Yes, but only to the extent that you itemize deductions and your miscellaneous deductions (which include financial planning fees) exceed 2% of your adjusted gross income. Based upon a recent U.S. Supreme Court decision, investment advisory fees incurred by a trust are generally also subject to the 2% floor.

18. Do you offer a tax service?

We do not prepare tax returns, but we will review client returns as part of the data gathering process. We do this whether the return has been prepared by the client or a tax service. We check for possible errors and make sure that the return accurately reflects the client's financial situation. There are cases when a tax preparer may not be aware of important financial factors that could have an effect on a client's tax return.

19. Do you provide legal or accounting services?

No. We offer financial planning and investment advisory services only and are limited by law to offering financial advice only. We will be glad to refer clients to an accountant or attorney if those services are needed.

20. Once a financial plan is completed, does our relationship end?

No, it doesn't! Financial planning, as we practice it, is a process and not a one-time event. Our advisory contract includes a retainer period, typically a year, during which time the client is encouraged to contact us for financial advice as new situations arise.

21. Is client information kept confidential?

Yes, it is the law. We do not even mention or release the names of our clients to anyone else.

22. How do I get started?

Give us a call at the above phone number, or stop by our office to set up an initial consultation. We'll have you fill out a short questionnaire to get an idea of your needs before our first meeting. There is no charge for the initial meeting. At the end of the initial meeting, we will give you a quote of our fee for the work you have specified. We will contact you one week later to make sure that you want us to begin the work. We do not collect any fees in advance. Except for asset management projects, payment is due in full when the work is completed, unless other arrangements have been made in advance. For asset management projects, 90% of the fee is due when the portfolio recommendations are made, and the remaining 10% is due 6 months later. This billing arrangement is required by the state regulator. There have been times when, because of our existing client obligations, we have been unable to take on new clients.

23. What is the format of the financial plans that you write?

An integrated financial plan will include the following information:

FINANCIAL PLAN CONTENT

- I. CLIENT DATA
- II. NET WORTH STATEMENT
- III. CASH FLOW STATEMENT
- IV. INSURANCE EVALUATION & RECOMMENDATIONS
- V. EDUCATION PLANNING
- VI. TAXATION EVALUATION & RECOMMENDATIONS
- VII. RETIREMENT GOALS & RECOMMENDATIONS
- VIII. ESTATE PLANNING & RECOMMENDATIONS
- IX. INVESTMENT EVALUATION & RECOMMENDATIONS
- X. IMPLEMENTATION CHECKLIST

24. What is CFP[®] certification?

The CFP[®] certification is conferred on individuals who meet the requirements specified by the Certified Financial Planner Board of Standards, Inc. The requirements include completion of education, examination, and professional experience requirements of the CFP Board, and agreement to adhere to the Board's *Code of Ethics and Professional Responsibility* and other renewal requirements, such as the completion of continuing education units.