# Fullerton Tax & Planning

www.fullertontax.com

30S East Avenue, Riverside, IL 60546 Ph: 708-447-5667 / Fax: 708-447-5733

E-Mail: Tfullerton@fullertontax.com Mahart@matrix-ps.com


*"Real People provide Real Service"*

November, 2015

So….

It begins. Worldwide economy. Actually, the economies of several countries have been affecting our local economy for decades. But now pundits are finally admitting that places like the Federal Reserve and Washington are not the only factors in how things work.

Interest rates are going up. Count the number of times that phrase has been repeated in the past several years. It has taken on an "OJ in the white Bronco" flavor. The fact is that rates will go up. And yes, the Federal Reserve will be the instrument of change when it happens. But waiting for it to happen is like watching paint dry. Move on, already!

Two important timelines for you to watch. If you are over 65, you have until December 7th for Medicare open enrollment. Actually, the words are Medicare Supplement Insurance open enrollment. In case you haven't been watching the TV commercials that are all over the networks.

The second enrollment period is November 1st to January 15th for the Affordable Health Care enrollment or changes. If you have to change insurance coverage, (Blue Cross customers, for example) or just find insurance, it is time to move. If you sign up by December 15th, you will have coverage by the first of the year.

Speaking of financial planning….

A One-Time Financial Checkup
By: Kimberly Lankford
*Kiplinger's Personal Finance*

*My husband plans to retire in about four years. We'd like to see a financial planner for a one-time checkup to make sure we're on the right track. How do we find someone who will do this, and how much will it cost?*

D.F.G., South Windsor, CT

Try the Garrett Planning Network (www.garrettplanning.com), which has more than 300 fee-only financial advisers throughout the country who charge by the hour. Member advisers taking on new clients must offer one-time financial checkups as one of their services. Most of the advisers charge $150 to $300 per hour, or $600 to $1,500 for a one-time review.

Many members of the Alliance of Cambridge Advisors (www.acaplanners.org) also offer one-time checkups, as do some members of NAPFA (www.napfa.org), a national association of more than 2,400 fee-only financial advisers.

The scope of services can very. Margot Dorn, a certified financial planner in San Diego, charges $210 per hour for retirement planning, cash-flow analysis, investment advice, and insurance and estate-planning reviews. Basic planning, she says, takes one to three hours; detailed retirement projections and investment allocation can take longer.

You may also have access to advice through your 401(k) plan or brokerage firm. Vanguard will connect you by phone to a financial planner who will assess your progress toward your retirement goal, discuss asset allocation and show how much you can safely spend in retirement (the fee is $250 for clients with $50,000 to $500,000 in investments at Vanguard).

Did you know????(Insight into Edward Jones)

At Ed Jones, One Adviser, One Office
By: Mason Braswell
*InvestmentNews*

As more and more firms push their advisers to form teams to better serve investors, one big name is bucking the trend.

Edward Jones, founded in 1922 around a model of staffing one adviser per branch office, has no intention of changing its ways, according to John Rahal, a principal in charge of recruiting and talent acquisition at the firm. Its standing its ground and avoiding hiring teams or allowing its advisers to partner up, even as that has become something of a standard practice in the industry.

“Our business model has served us well for 95 years,” Mr. Rahal said. “You have to be a special individual in our industry that understands our business model…and that you will be in a branch by yourself.”

PASSING OFF CLIENTS

Even if an adviser’s book of business starts to grow beyond what they have the resources to serve individually, Mr. Rahal said advisers won’t be able to hire another adviser to share assets. The adviser would have to add additional client assistants, known as branch office administrators, or pass off clients to another branch in the area.

The firm would not hire an adviser who was not willing to work in a solo office.

“That’s the way you deeply serve clients,” Mr. Rahal said. “You deeply serve clients by having a meaningful relationship with an appropriate amount of families that you focus on.”

The policy at Edward Jones runs counter to a sweeping trend that has taken hold at large brokerage firms. The wirehouses, for example, offer bonuses or incentives to advisers who team up with others and have specialists or certified financial planners on their team. They say it helps advisers serve a variety of needs for clients, particularly the high-net-worth and ultra wealthy. In addition, teaming makes it harder for a single adviser to move to another firm and take clients with him or her.

The average number of professional staff members per practice is 3.3 at wirehouses, 5.2 at dual-registered practices and 4.5 at registered investment advisers, according to data from Cerulli Associates Inc.

‘ADVISER TEAMING’

“The appeal of adviser teaming has grown among both established and new advisers,” Kenton Shik, an associate director at Cerulli, said in a report on teaming. “For advisers, a successful merger can generate substantial growth and productivity enhancements.”

Mr. Rahal said Edward Jones, which reported about 14,000 advisers at the end of last year, views teams as too complicated in terms of conflicting personalities, payouts and figuring out how to transition assets in retirement.  Right now, Edward Jones divides assets among a handful of advisers in other branches when a veteran departs.

"If you have a team approach of three financial advisers, there's got to be one lead dog typically, and then the next question becomes how you get valued sharing commission and what happens at retirement," Mr. Rahal said.  "I will never say never, but I will say that our belief is in one financial adviser not having to navigate the idiosyncrasies of personalities and totally focusing just on their clients with their branch office administrator."

Mr. Rahal said Edward Jones' home office in St. Louis is designed to play the role a specialist or other team member might play in order to serve a wealthy client.

"We have some of the same expertise in St. Louis for clients with more sophisticated needs," he said.

Shunning teams is likely to make it harder for Edward Jones to recruit, especially if it wants to go after wirehouse brokers, according to Danny Sarch, an industry recruiter with Leitner Sarch Consultants.

"If you look at it and say the bigger producers are generally on a team" it would make it difficult, Mr. Sarch said.

Edward Jones, which has said it wants to have 20,000 advisers by 2020, expects to bring in 600 advisers this year, short of its goal of 800, according to Mr. Rahal.

Having one adviser per office makes sense for the firm's model of training its advisers and then allowing them to build their business by going door-to-door.

The firm also isn't as dependent on recruiting for new talent.  About 75% of new hires are career changers, and 10% to 15% came from universities or are military veterans, Mr. Rahal said.

"I give them credit for sticking to their plan," Mr. Sarch said.  "And they're one firm that has successfully trained over the years in a way that others have not."

And as if you needed to be told this…..

Doctors Are Cheap.  Doctors Are Know-It-Alls.
By:  Olivia Mellan & Sherry Christie
*Investment Advisor*

Most advisors prefer to work with higher-net-worth people, and for many advisors, medical doctors and dentists constitute a key client group.  However, others shy away from doctors as clients because of the stereotype that they're cheapskates or won't follow the advice they're given.

How true is this image?  Can financial advisors provide real value to doctors and build strong bonds with them?  Have the economic changes in the medical profession, highlighted by the Affordable Care Act, made it easier or more difficult for advisors to efficiently serve medical professionals?

To explore this issue, we spoke with eight advisors who have chosen to work with doctors.  Here are their views—and some tips on how to turn brief consults into relationships.

"Fascinating and Fun" Clients

Newly retired after 40 years of specializing in the financial needs of physicians, Gene Balliett asserted that "it's widely believed that doctors are impossible to work with, but I didn't find them difficult at all.  The more I was around them, the more I admired them."

Doctors initially came to Balliett with investment questions because of his experience as senior editor of *Medical Economics* and editor of *Physicians Management* magazines.  For 11 years, he and his wife, Dee, a mental health counselor, gave seminars on financial planning to medical groups all over the Western Hemisphere.  We have known their work for a long time, and they're now regarded as pioneers in the field.

"My favorite clients were absolutely fascinating and fun to be with," Balliett told us.  "Like any other career group, it's a mix.  The most successful doctors tend to be quiet, very nice and hard to pick out in a crowd."

"Will I Ever Be Able to Retire?"

Obamacare is just one of the growing pressures on physicians, noted wealth manager Todd Bauerle of Bauerle Financial Services in Lake Mary, Florida, who took over Balliett's practice after his retirement.

"Can I put away enough money to ever retire?'  That's what I keep hearing from them," said Bauerle, a financial planner for 30 years.  "The changing nature of their profession keeps them awake at night:  the electronic records requirement, the changing reimbursement schedules.  How will they keep up?  How will they stay profitable?"

High medical-school bills have some doctors wondering whether they will ever catch up, let alone have money to invest.  They're also likely to have bright children who want to go to top schools, making the pressure to afford college more intense.

Several of Bauerle's doctor clients have sold their private practices and are now employees of a hospital or other corporate health care provider.  "This removes the stress of trying to run a business with variable income," he said.  Building a financial plan becomes simpler, especially with succession planning out of the picture.

Whether employees or self-employed, doctors need advance planning more than ever.  "Before, they usually made enough money that they could mess up and start again a few times," Bauerle pointed out.  "Now they don't have that luxury.  So they need to get on board and move forward with a comprehensive financial plan."

"Doctors Tend To Be An Alpha Bunch"

"I enjoy working with docs because they tend to be logical and analytical," observed Tom Orecchio, principal and wealth manager at Modera Wealth Management in Westwood, N.J.  "They like to be involved in the process, even if they're delegating a lot of the decision-making."

These clients aren't for an advisor who operates at a leisurely pace.  "They tend to be very engaged, and they expect me to be engaged," Orecchio said.  "We're very responsive in our client service; I return their emails and calls promptly."

He pointed out the importance of confirming up front that you and a prospective client are on the same page.  "Our investment philosophy is that we want to get the returns of the market," he explained.  "We're not chasing alpha.  Doctors—especially surgeons—tend to be an alpha bunch.  If we feel we can't get through to them through education, then it's not a good fit."

Following Peers' Financial Advice

Physicians tend to follow their friends, which sometimes gets them into trouble.  From his 40-year perspective as an advisor, Balliett confided, "Doctors pay a lot of attention to others in the profession, treating them with reverence.  They listen to other doctors about things that the other doctors don't know a damn thing about, like tips on stocks."

"Years ago, a doctor came to me and said that everyone at the hospital was investing in a limited partnership that produced rubber horseshoes," said Barry Kaplan, a former dentist and now a CFP and chief investment officer for the wealth management firm Cambridge Wealth Counsel in Atlanta.  "Anybody with any common sense would have known it was incredibly speculative.  But since their friends were doing it, they assumed that someone had done due diligence.  No one had.  Needless to say, it went broke and everyone lost their money."

Kaplan added, "The problem is that some physicians have what I would call the curse of intelligence.  They're so smart, so good at one thing, such high achievers—they think that just because they're bright, they can do what I do in five minutes a day, when I do it all day, every day."

Doctors' affinity for shoot-from-the-hip investing was one of the most common observations to emerge from these interviews  Orecchio said, "If a golfing buddy suggests a hot tip, they may want to act on it or at least want us to validate it."  (Other advisors might feel Orecchio has done well if clients consult him first.)

Bauerle suggested that work pressure is a prime culprit:  "Because they don't have time to make the best decisions, they get involved in things they shouldn't, like [poorly structured] business or real estate deals."

"Who Can I Trust?"

In general, Balliett observed, doctors don't know whom to trust for financial advice. "Older doctors will send young doctors to insurance agents who are commissioned salespeople and [sell them] the most expensive coverage," he said. "Many doctors also think that stockbrokers are investment experts. There are a few who are, but many are salesmen who sell the most expensive products."

"How we as doctors practice is analogous to being a fiduciary," pointed out Setu Mazumdar, CFP and president of Physician Wealth Solutions in Las Vegas, who, like McClanahan, is a former emergency medical physician. "We have our patients' best interests at heart, but many doctors hire financial experts who aren't fiduciaries."

McClanahan agreed. "A lot of the people who approach physicians to sell them financial services do not have their best interests at heart. In fact, medical societies are often in bed with financial institutions that aren't fiduciaries and just want to sell products."

Poor results end up reflecting badly on the whole financial advisory profession. "What happens is that they don't trust any financial provider, so they turn to each other," she explained. "Since doctors are very smart, they think they can do it themselves."

Believing that "part of our job is to educate them about the difference between financial advisors, those who are true fiduciaries and those they may be less able to trust," McClanahan offers educational seminars for doctors. Because past participants often refer their medical colleagues, there's currently a waiting list while she schedules more seminars into her busy practice.

Understanding a Doctor's Life

For all their idiosyncrasies, Mazumdar enjoys and champions providing financial advice to doctors. "If you find physicians who understand your value and the services you provide, they make excellent clients," he maintained. "It's a question of sorting out the doctors you want to work with from those you'd rather not be burdened with. The ones who will complain about your fees, or want bizarre and exotic investments, those are the ones you want to pass on."

The former ER doctor explained, "The way I look at it is this: As advisors, we can always tell them, "This is how much you should be saving, or spending, or investing.' But you have to understand what a day in the life of a physician is truly like. I can tell you that having someone's life in your hands outweighs the stress of most other professions.

## Don't Write Off a Fed Rate Hike in December

By: Mohamed A. El-Erian
*BloombergView*

The fragility of the global economy, weakening conditions in the U.S. and recent statements from some Federal Reserve officials have led to a growing acceptance that the central bank won't raise interest rates this year.

But those who now predict the Fed will put off its first increase in almost 10 years until March 2016 may be misreading the broader domestic and international context.
By limiting the demand for exports and damping corporate revenue from overseas sales, a weaker global economy tends to hold back U.S. expansion. But the scale and scope of these effects pale in comparison to the impact of domestic developments. In fact, the global conditions would only marginally enter into consideration for Fed officials if this weakness wasn't contributing to instability in financial markets.

Better Market Footing
For example, economic concerns about China triggered widespread financial volatility in the weeks preceding the mid-September meeting of the Federal Open Market Committee. Those disorderly price declines and overshoots, together with adverse contagion among asset classes, were important reasons for the central bank's decision not to raise rates then.

Now markets around the world have regained a better footing and the external head winds are not as strong, even though growth has yet to rebound in China and the rest of the emerging world.

When it comes to the U.S. economy, the case for a rate hike has been challenged by recent indicators of consumer weakness, and its impact on retailers. But here, too, the broader context is important.

<u>Job Creation</u>

After a frustratingly slow post-crisis start, the U.S. economy has had an impressive run of job creation. But further progress is dependent on important structural issues that are not easily addressed by Fed policy. Meanwhile, wage and inflation pressures are starting to build, though in a rather modest fashion. And concerns about excessive risk taking—an unintended side effect of the central bank's prolonged use of unconventional monetary policy—are far from settled.

Taken together, this suggests that, even though an October rate hike can almost certainly be discounted, it would be premature to entirely rule out action by the Fed in December, let alone to predict it would be postponed until March of next year. Only a lot more signs of weakness in the domestic economy, as well as a return of global financial market instability, would make that a sure bet.

Markets for October looked like…….

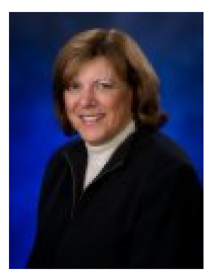
**THE MONTHLY INDEX REPORT FOR OCTOBER 2015**

| Index | October 2015 | QTD | YTD | Description |
|---|---|---|---|---|
| S&P 500 Index | 8.4% | 8.4% | 2.7% | Large-cap stocks |
| Dow Jones Industrial Average | 8.6% | 8.6% | 1.0% | Large-cap stocks |
| NASDAQ Composite | 9.4% | 9.4% | 7.7% | Large-cap tech stocks |
| Russell 1000 Growth | 8.6% | 8.6% | 6.9% | Large-cap growth stocks |
| Russell 1000 Value | 7.5% | 7.5% | -2.1% | Large-cap value stocks |
| Russell 2000 Growth | 5.7% | 5.7% | -0.1% | Small-cap growth stocks |
| Russell 2000 Value | 5.6% | 5.6% | -5.0% | Small-cap value stocks |
| MSCI EAFE | 7.8% | 7.8% | 2.5% | Europe, Australasia & Far East Index |
| Barclays Capital U.S. Aggregate | 0.0% | 0.0% | 1.1% | U.S. Government Bonds |
| Barclays Capital U.S. High Yield | 2.7% | 2.7% | 0.2% | High Yield Corporate Bonds |
| Nomura QES PERI* | 2.9% | 2.9% | -3.6% | Private Equity Strategy |
| Aspen MFBI** | -2.6% | -2.6% | -2.7% | Managed Futures Strategy |
| 3-month Treasury Bill | 0.0% | 0.0% | 0.0% | |

*Returns as published or estimated through 10/31/15; Returns reflect reinvestment of distributions.*
**Nomura QES Modelled Private Equity Returns Index; **Aspen Managed Futures Beta Index*

Have a great Veterans Day, honor our vets here and gone, have a Great Thanksgiving and see you in December.

 Timothy T Fullerton, Sr.

 Mary Ahart

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