THRIFT FINANCIAL
EMPOWERING CAPITAL

2022

How to Avoid Overpaying
for Financial Advice

www.thriftfinancial.com

To our Clients and Prospective Clients:

I am pleased to introduce Thrift Financial's analysis of fees and costs in financial services. I hope you will closely review subsequent pages since hundreds of thousands, if not millions of dollars, of your retirement assets are at stake.

I founded Thrift to provide high-quality investment services to families at a fraction of the costs charged by other firms. Depending on assets invested with Thrift, and as illuminated in the following pages of this report, your savings could easily exceed 50% of your current advisory and investment fees.

Thrift Financial is different from many other financial services organizations. Thrift Financial is a registered investment advisor and investment fiduciary. The business is legally structured always to place the interests of our clients ahead of any employee or business interests. Equally important, we are culturally oriented to put the interests of our clients first.

At Thrift Financial, we focus on helping clients improve their investment portfolio returns while reducing the risk and costs associated with managing those investments. We spend considerable time understanding our client's investment goals, risk tolerances and aim to structure clients' investment portfolios within those stated parameters.

If you have not worked with Thrift Financial, I encourage you to contact us for a more personal and extensive introduction to the firm. I believe you will find our client-centric orientation, investment-focused culture, service commitment, and low-cost compelling reasons to begin a relationship with our organization.

Regards,

George

George A. Antonak
President
Thrift Financial, Inc.

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Bio of George Antonak

After two decades in investment and wealth management, George founded Thrift Financial, working with institutions and individuals across the United States and Canada. Before founding Thrift Financial, he held senior executive roles with four multi-billion-dollar financial services organizations, overseeing individual and institution client assets and investment portfolios.

George has worked closely with individuals and families, helping build their investment portfolios through investments across public and private equities and fixed-income investments. He has extensive professional experience working with institutional clients creating investment policies, assessing asset allocation, risk analysis, investment selection, and cost analysis. In addition, George has worked closely with large and middle-market plans covering health companies, insurance, state and local government, Taft Hartley, endowments, and foundations in both their retirement and operating funds.

George received a Master's of Business Administration from Cornell's Johnson Graduate School of Management and graduated with a Bachelor of Business Administration with honors from the University of Michigan, Ross School of Business. George holds a series 65, 24, and 7 licenses and is a member of the CFA Institute and a member of the CFA Society Chicago.

You are welcome to seek additional information on George's professional experience, found on his Linkedin profile and the SEC website.

Client Confusion Abounds

Evidence that investors don't understand the fees they are paying for investment products and advice continues to mount. A recent FINRA Investor Education Foundation survey found that nearly 20% of investors don't know what they pay in investment fees. But the problem goes beyond a simple lack of understanding. Many investors don't realize that they are paying fees at all. Approximately 14% of the FINRA survey respondents believed that they were not paying any fees , with a staggering 60% of respondents unclear whether they were being charged fees by their advisors [I].

The fees associated with financial products and services are often buried in fine print or within detailed disclosures. They can be hard to find and even harder to understand. Even when investors are aware of the fees they are paying, they may not fully grasp the impact those fees can have on their investment returns. This disconnect has damaging consequences. When investors don't understand the fees charged by their financial professional, they are less likely to shop around for a better deal, question the fees they are being charged, or negotiate for lower fees.

Fee Types Explained

The fees charged by financial professionals come in many forms but can broadly be divided into two categories: advisory fees and investment costs. Advisory fees are the charges that investors pay their advisor for financial advice and are generally based on a percentage of assets under management. Investment costs are the fees charged by investment companies for managing and administering investment products. These investment costs can easily equal or exceed the fees you are paying in advisory fees.

While advisory fees are typically disclosed upfront and in quarterly statements, investment costs are often hidden within the fine print of the prospectus. These costs can include money management fees, trading costs, custodial fees, redemption fees, commissions, and 12b-1 fees. For example, 12b-1 fees are charged by mutual fund companies to offset the costs of marketing and selling the fund. But these fees are not always disclosed in a way that is easy for investors to understand, making it difficult for investors to understand the actual cost of their investment products and services.

There is no standard pricing model for financial advice to further complicate matters. Advisory fees are often charged as a percentage of assets under management but may also be a flat fee or an hourly rate [II] . This lack of transparency makes it hard for investors to compare the costs of different financial service providers.

The True Cost of Financial Services

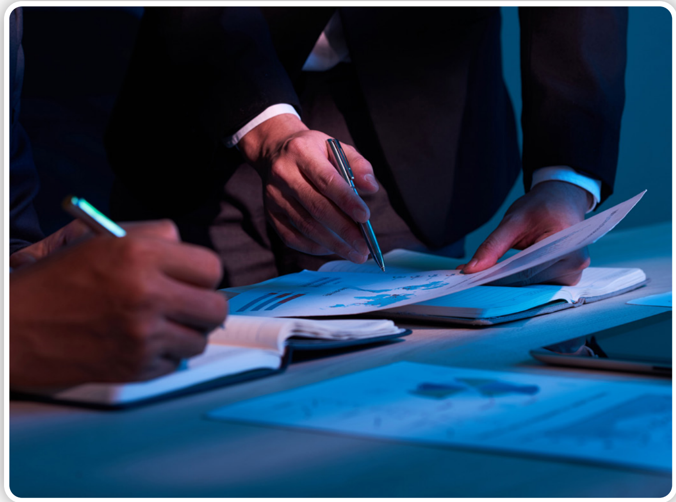
The actual cost of financial services is often much higher than investors realize. According to a 2018 survey conducted online by The Harris Poll, Americans believe that they will pay an average of $2,244 in investment and banking fees over their lifetime. The reality is that investors are likely to pay much more than that. The same study revealed that Americans could be paying more than $369,000 in financial fees throughout their lifetime. This includes fees charged by investment managers, advisory fees, and 401(k) plans. Thrift Financial research shows these total fees even higher and is explained later. [III]

While advisory fees typically only represent a small percentage of an investor's assets, the opportunity cost of foregoing the investment of those fees is exponentially larger. For example, a client charged a standard 1% advisory fee on a $1 million investment portfolio would have paid $10,000 in fees last year. Assuming a benchmark growth rate of 7% for the portfolio, the $10,000 paid in fees would be worth over $54,000 in 25 years. Put another way; the $10,000 paid in fees in a single year would have grown to be more than five times the original amount if invested over a 25-year time horizon.

Many advisory firms outsource some or all of their investment management to third-party money managers. These money managers typically charge their fees in addition to the advisory fees charged by the advisory firm, which can further increase the costs paid by investors. According to the Investment Company Institute 2022 fee analysis report, the average mutual fund charges clients approximately 0.50% (50 basis points or "bps") per year in management fees and other charges related to their investments. Using that 0.50% (50 bps = ½ of 1%), a client with a hypothetical $1 million investment portfolio would pay $125,000 in investment product fees over 25 years. This high total fee appears worse when considering the opportunity costs we previously discussed.

$10,000 paid in fees would be worth over $54,000 in 25 years

Coupled with advisory fees, investment fees can significantly impact an investor's ability to grow their wealth over time. Table 1 shows that investors who invest $1 million with an advisor could pay over $375,000 in fees and expenses over 25 years. If you were to reduce those costs by 1/3 and invest those saving over 25 and assuming a modest 7% annual return, investors would have over $310,000 additional in their investment portfolio upon retirement.



What a $1 millioln Investment Portfolio will likely cost you?

	1 Year	5 Year	10 Year	20 Year	25 Year
Advisory Fee	$10,000	$50,000	$100,000	$200,000	$250,000
Investment Product Fee	$5,000	$25,000	$50,000	$100,000	$125,000
Total Fee per Year (s)	$15,000	$75,000	$150,000	$300,000	$375,000

Notation: Assuming a 1% (100 bps) advisory fee and average investment fee of 1/2% (50 bps). Interest Rates, Compounding, and Opportunity Cost not included in the calculation.

Table 1 -The Impact of Advisory and Investment Product Fees on a $1 Million Portfolio

How to Control Costs

Many investors mistakenly assume that the only way to receive high-quality financial advice is to pay proportionally higher fees. In fact, a growing body of research has shown that there is little correlation between the fees charged by financial advisors and the quality of advice received. A Vanguard analysis of the annualized returns of mutual funds in the top and bottom quartiles of expense ratios showed that funds in the bottom quartile outperformed those in the top by nearly 1%. [IV]

Investors looking to control their financial costs should start by evaluating their investment goals and allocatable assets. Once these have been determined, investors can work with their advisors to develop a financial plan aligned with their specific goals. While virtually all investments have costs, fees for financial services can often be reduced by 50% or more without sacrificing core investment selection, investment returns, or services available.

Investment fees and costs have been steadily reducing over the last 25 years. According to Morningstar, in 2020, the asset-weighted average fee paid by investors in mutual funds and ETFs was 0.41% (41 bps), down from .44% (44 bps) in 2019. [V] As depicted in Chart 1, investment costs have been decreasing relatively steadily, for over 30 years.

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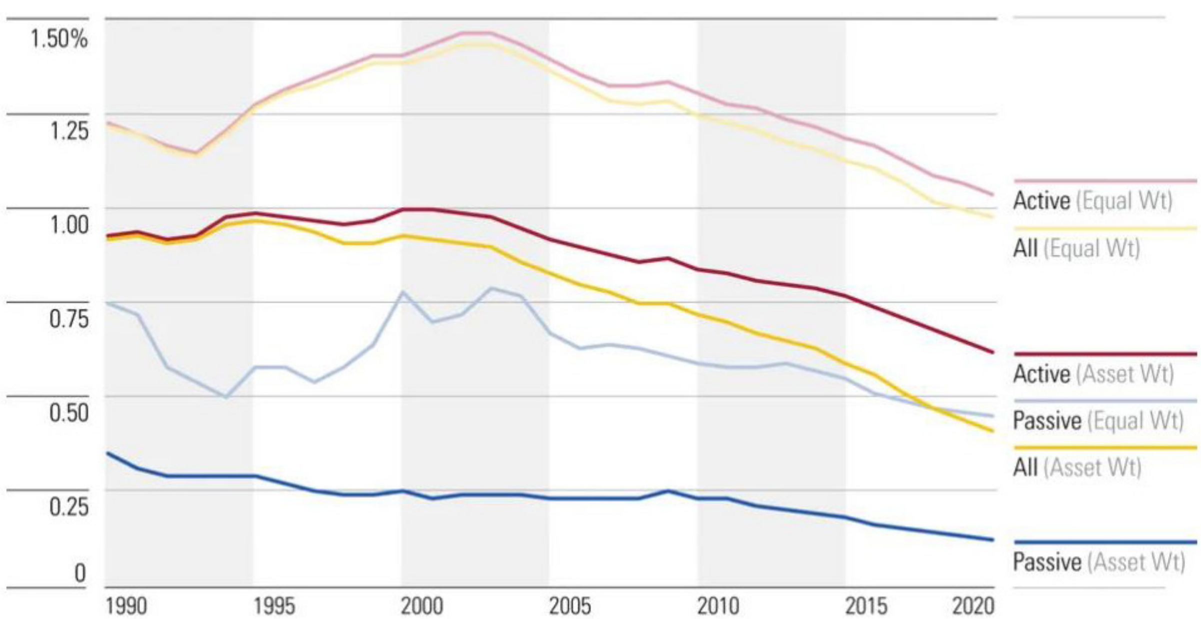

Source: Morningstar. Data as of 12/31/2020.

Chart 1: Average Investment Costs have been steadily decreasing

While investment costs have been steadily decreasing, the advisory fees paid to your investment professional have been more resilient over time. As noted in Chart 2, although fees paid are lower for larger asset investors, the average fee paid to their investment advisory has not materially changed over the last five years. Investors under $2 million are paying over 1% (100 bps) on assets in advisory fees, while investors with $5 to $10 million are paying slightly under 0.75% (75 bps or ¾ of 1%) , and those with between $25-$50 million are paying approximately 0.50% (.50bps). As noted across the horizontal axis, these fees have not materially changed for each investor category.

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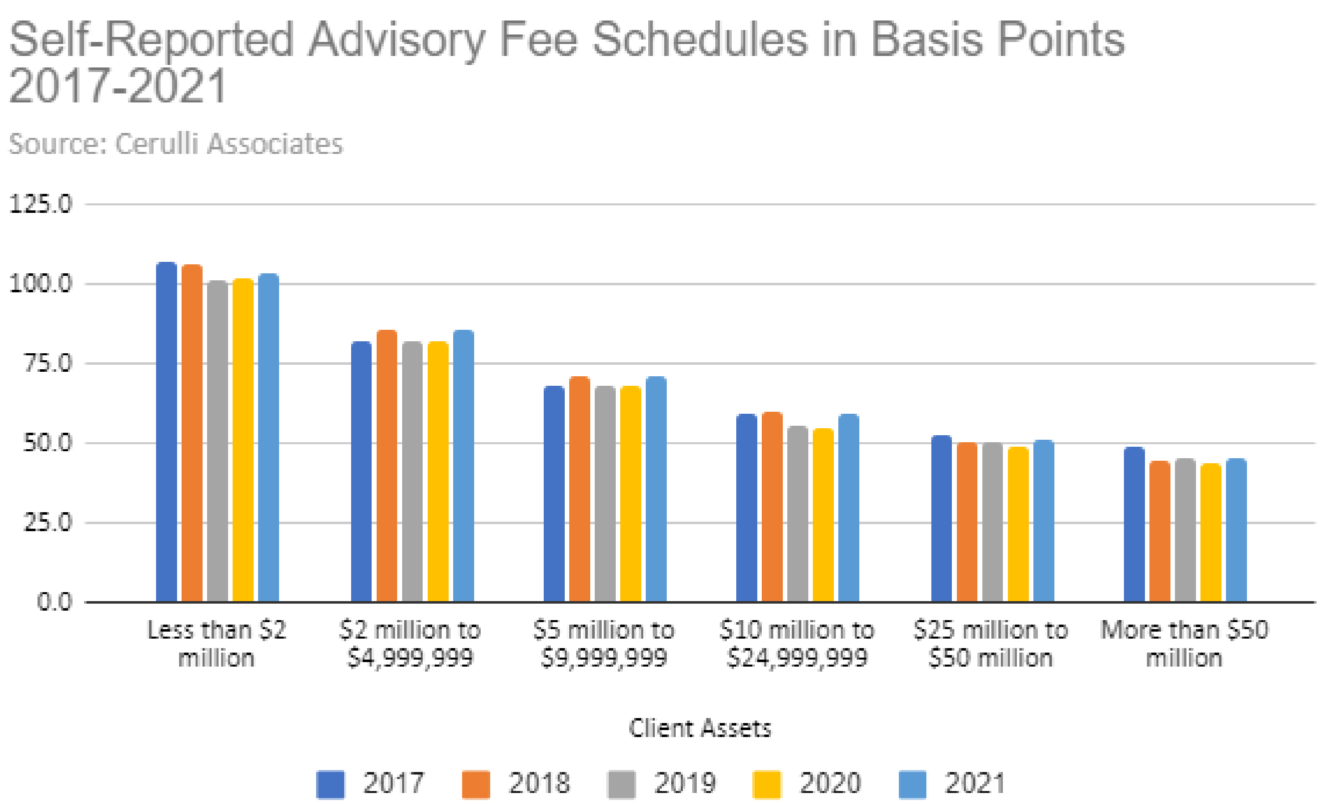


Chart 2: Self-Reported Advisor fees Charged by Financial Advisors from 2017 to 2021

As outlined in Table 2, Thrift Financials' Investment Advisory starts at 0.50% (50 bps) for clients with under $5 million in assets under management, while the industry average is 1% (100 bps). As outlined in Chart 1 above, the 50 bps is what investors generally pay if they have $25 million of investments with the advisor.

Fee Schedule

From	To	Per Year
Under	$5,000,000	0.50%
$5,000,000	$10,000,000	0.45%
$10,000,001	$20,000,000	0.40%
	Above $20,000,000	Negotiable

Table 2 : Thrift Financials' Investment Advisory Fee Schedule January 2022

While 0.5% (50 bps) may not seem like a significant difference, it can significantly impact an investor's bottom line over time. An investor with $1 million invested would save $5,000 in advisory fees in the first year alone by working with Thrift Financial instead of a traditional financial advisor. Additional information on Thrift Financial and pricing can be found here.

Are you Overpaying for your Investment Services?

Investors who are unsure how much they're paying in advisory fees should start by reviewing their most recent investment statement. These statements are typically sent monthly or quarterly and will list all the fees an investment advisor charges. Most firms list their fees as quarterly charges in dollar terms, so calculating advisory fees should be straightforward. Generally, it would be summing four quarters of fees paid divided by your total invested money at that firm to obtain the fee percentage on your investments.

Investors unable to locate or calculate their firm's fee structures can also turn to the ADV and Investment Management Agreement which should explicitly state the standard costs of working with that firm. Fee information is contained in a document titled ADV, Part 2A that you can locate online for most small and large financial services firms at www.adviserinfo.sec.gov. An investment firm that doesn't clearly disclose its standard fees in writing and comes across as intentionally opaque may be cause for concern and avoidance.
After calculating the fees charged by their investment firm, investors should compare these costs to industry averages and attempt to negotiate lower rates if they believe they are being overcharged. The fees associated with financial services have come under increased scrutiny in recent years, and many firms are now willing to negotiate lower rates to retain clients.

Many firms are now willing to negotiate lower rates to retain clients

Typical financial advisor fees range from 1% (100 bps) to 1.5% (150 bps) and are usually charged on a sliding scale, meaning high-net-worth investors are charged proportionally less in fees. [VI] For example, the Advisory HQ News Corp research found that the average annual advisory fees paid by investors having an account size of $1 million was 1.02% in 2021. [VII] Compare this to the 1.20% paid by investors with an account size of $50,000 and the 0.59% paid by investors with an account size of $30 million, and it becomes clear that total assets under management should be carefully considered when evaluating financial advisors' value. Figure 1 summarizes advisory fees charged across a spectrum of assets invested.

Increased regulation, the rise of index funds and exchange-traded funds (ETFs), and competitiveness within the industry have put downward pressure on the fees charged by financial service providers over the past three decades. A few investment firms now offer a fee analysis of investors' portfolios to help highlight any potential cost savings, undue risks or higher returns that could be achieved by working with a different firm. It is recommended that investors review their investment costs at least once every five years to ensure that they are not overpaying for their financial services.

However, advisor fees usually only represent half of the equation as many investment products also come with their own fees and expenses which often add up to .5% or more. For example, according to research by the Investment Company Institute, the average mutual fund expense ratio in 2021 was 0.47%. [VIII]

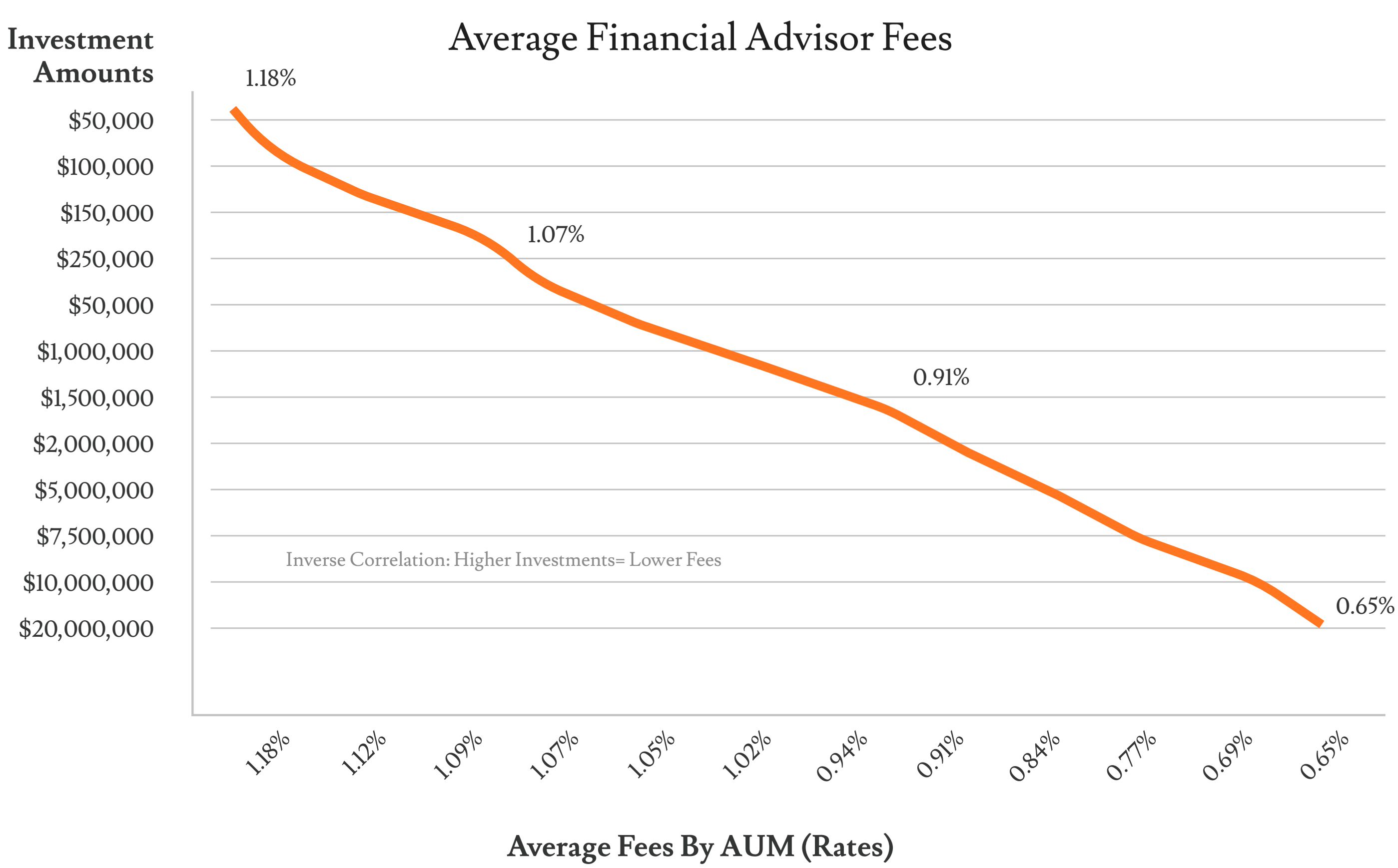


Figure 1 - Average Financial Advisor Fees by AUM for 2021

Thrift Financial offers extensive fee analysis and benchmarking for individuals, families, trusts, endowments, foundations, and other institutions. Our fee research analyzes and benchmarks investment advisor fees, investment product fees, trade costs, and custodian fees. We assess fees in absolute and percentage terms and compare those costs to industry benchmarks and significant competitors. Thrift Financial also offers research on portfolio strategy, portfolio construction and performance analysis. For selected higher asset clients, Thrift provides fee negotiation on prospective investments and renegotiation of existing portfolios.

Is Paying for Financial Services Worth It?

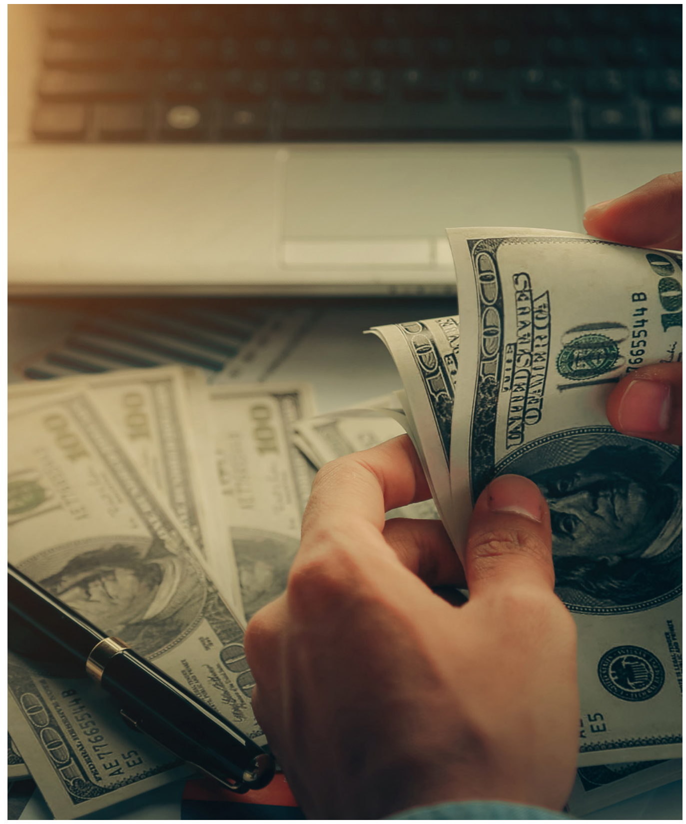
There's no question that financial services can be expensive. Advisory fees, investment costs, and other service charges can quickly add up and potentially erode investors' returns.

When assessing the value of financial advice, investors tend to focus solely on portfolio returns without considering the financial and emotional outcomes of making sub-optimal investment decisions. A 2019 study by Vanguard found that the value of financial advice can be broken down into three key components: improved portfolio performance, better decision-making, and greater peace of mind. [IX]

The most direct benefit of financial advice is improved portfolio performance. This is achieved through two main channels: asset allocation and security selection. Advisors can help investors select the right mix of asset classes to achieve their desired level of risk and return while reducing company-specific risk. They can also assist with security selection by recommending specific investments that are better positioned to possibly outperform the market.

In addition to improved portfolio performance, financial advice can also lead to better decision-making. This is particularly important for making decisions about retirement income, insurance, estate planning, and taxation. For example, many investors are hesitant to start taking withdrawals from their retirement accounts for fear of running out of money later in life. However, an advisor can help them develop a withdrawal plan that ensures they will not outlive their savings.

Working with a financial advisor has also been shown to improve investors' sense of well-being. Advisors can help reduce anxiety by providing clarity and guidance during market volatility. They can also help investors stay disciplined and focused on their long-term goals and navigate complex financial decisions when they arise. For investors, this means greater peace of mind both now and in the future.



The Bottom Line

When evaluating the value of financial advice, it's essential to consider all the potential benefits – not just portfolio returns. When investors take a holistic view of the value of advice, it becomes clear that paying for financial services could prevent costly mistakes and help investors achieve their financial goals.

While it's important for investors to be aware of their fees, it's also important to remember that not all investment firms and advisors are created equal. Investors should carefully consider their financial objectives and choose an advisor that offers the greatest value for their service.

EndNotes

[I] FINRA Survey, December 19,2019, "New FINRA Foundation Research" Two Thirds of US Investors Fail Investing Quizs and Face confusion about Investment account Fees' Investors Fail Quiz and Face Confusion

[II] Forbes, August 27, 2020, "The Truth about Financial Advisors' Services and Fees" The Truth About Financial Advisors Services And Fees (forbes.com)

[III] NerdWallet Survey, June 6-8, 2018, "Finnacial Fees Could Cost Americans $1.1 Million Over Their Lifetime. Financial Fees Could Cost Americans $1.1 Million Over Their Lifetime - NerdWallet

[IV] Vanguard, May 2022, "Don't Let High Costs Eat Away at Investment Returns" The impact of investment costs | Vanguard"

[V] Morningstar, September 7, 2021, "The Incredible Shrinking Fee" The Incredible Shrinking Fee | Morningstar

[VI] US News and World Report, January 20, 2022, "What to Know About Financial Advisor Fees and Costs" What to Know About Financial Advisor Fees and Costs | Investing | US News

[VII] Advisory HQ. March 31, 2021 , "Average Financial Advisor Fees in 2021, Everything you Need to Know" Average Financial Advisor Fees in 2021 | Everything You Need to Know – AdvisoryHQ

[VIII] Investment Company Institute, Research Perspective, March 2022, "Trends in the Expenses and Fees of Funds, 2021 (ici.org)"

[IX] Vanguard Reports, September 2019, "Assessing the Value of Advice" CIRAVOA.pdf (vanguard.com)

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