[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

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From the Grapevine...

Save the date! On Wednesday, July 16th we'll hold our fifth annual Top of the Fair party at our offices on the eighth floor of the One North Main building in downtown Ann Arbor. Our balconies overlook the Ann Arbor Art Fairs that begin that day. We'll have drinks and appetizers and the great company of many of our friends, clients, allied professionals and prospective clients. Even if you are not a client please join us. Call (734) 668-4040 to RSVP or for more details.

Congratulations to Michelle Moore, Frank and Jennifer's youngest, on her graduation from Pioneer High School. Michelle debated her college choices until recently when she decided on Central Michigan University. She's interested in studying social work or childhood development.

Congratulations also to Niki Barnes daughter, Makenna, who will graduate from Pioneer High School. Makenna is still sorting out her college options for the fall.

SIGN DOCUMENTS ON THE GO

As the world gets increasingly digital and mobile, many people are getting away from desktop computers with printers. That can pose a problem when someone sends you a document that needs a signature and you want to sign and return it quickly. Fortunately there's an app for that.

The SignNow app lets you open a pdf file and easily sign, enter text and dates, save and return the completed document to the sender. It's available for the iPad, iPhone, Android devices and the web. When someone sends you a pdf form via e-mail, just open it in the SignNow app, complete any text fields, dates or check marks and insert your signature. You can simply sign with a finger on your iPad or other device and can even save it for future reference. Then just e-mail the completed document back to the sender. There's no need to print it and you'll have a copy available on your device.

The app has had great reviews and is backed by Barracuda, an industry leader in security. Professional versions are available but most consumers can use the free app which allows you to sign five documents per month.

Electronic signatures are valid for most documents, including brokerage account applications, beneficiary forms and investment advisory agreements. NBA star, Deron Williams, reportedly even used the SignNow app to sign his $98 million contract.

COST VS. VALUE

Lately it seems we can't go a week without running across an article about saving costs on investing. While cost savings are important, the articles seem to suggest that all investment returns will be equal so saving 0.3% a year on your fund expenses means you'll earn more money.

The Vanguard mutual fund group is known for their low costs so let's look at the returns they've provided to their investors over the past five years (through 4/30/14). Different funds have different objectives so we'll look at how they performed relative to their generally more expensive peers.

Running a Morningstar screen we find that Vanguard has 218 mutual funds that have a five year track record. Yet only 10% of their funds showed up among the top 10% in their category, which is decidedly average. Looking to the top quartile and top half they look relatively better but over 25% of their funds turned in below average returns to investors despite their low costs.

There's no question that, all mutual fund returns being equal, lower costs will translate to better returns, but fund returns are not equal. Many of the top mutual fund managers command higher compensation and easily offset their higher cost with better net performance.

It's interesting that Vanguard, with their reputation built on low costs, recently published a white paper on the value that financial advisors may be able to add to investor returns. They looked at seven different areas including using lower cost funds, rebalancing, using suitable asset allocation and behavioral coaching. In some areas they identified a specific value number. For instance, using lower cost funds could add 0.45% per year. For other areas they gave a range and, for two of the categories, including asset allocation, they didn't quantify a figure but indicated that it was >0%.

Their conclusion was that advisors could potentially add "about 3%" annually in better investment returns, though they recognized that some years would be much higher and some could be lower.

Vanguard concluded that advisors could potentially add "about 3%" per year in better investment returns.

At Vintage we've long felt that we add even more value to our client's financial lives. The Vanguard study doesn't indicate that asset allocation is a significant contributor to returns but the 1991 Brinson, Singer and Beebower study suggested that over 90% of investment returns can be attributed to asset allocation. Looking at 2013 when stocks earned about 30% and bonds lost 2% it's easy to see how important it is to get the asset allocation decision right.

Another study, the Quantitative Analysis of Investor Behavior done by DALBAR, indicates that stock fund investors underperformed the S&P 500 index by over 7% per year over the past thirty years, much more than Vanguard's 3% conclusion. Similarly, bond fund investors earned about 7% less than the bond index.

We also find that incorporating our tax expertise can improve client's net after-tax returns. The Vanguard study didn't seem to address this factor very well, perhaps because most financial advisors don't have extensive tax training.

While the actual value a good financial advisor can provide may be difficult to quantify and will vary from client to client and year to year, the Vanguard study and others suggest that the benefits far outweigh the costs.

WHAT'S AN ETF?

If you read many of the articles in the financial press or online you've probably seen reference to ETFs over the past few years. Exchange Traded Funds (ETFs) are similar to some mutual funds in that they are diversified investment vehicles that may own a number of stocks. Unlike most mutual funds, though, ETF's typically attempt to match an index such as the Dow Jones Industrials Average, S&P 500, or Russell 2000. In this regard they are similar to open-ended, index mutual funds.

The key difference between ETF's and open-ended mutual funds is that the ETFs trade throughout the day and are traded like stocks. This makes them more attractive for short term trading. Trading costs are typically less than for broker sold mutual funds but may cost more than no load mutual funds. Because the ETFs are not actively managed their internal costs are quite low, similar to an index mutual fund.

Today ETFs carve out a wide variety of market sectors allowing people to invest into a basket of stocks in the pharmaceutical, energy, semiconductor or utility industries. There are country specific ETFs that invest in Malaysia, Taiwan or Belgium. In short, ETFs allow investors to target a lot of sectors in a low cost vehicle.

ETFs are generally very tax efficient, in part because they simply track an index and also due to special tax rules they can use.

At Vintage we typically prefer to use actively managed mutual funds that we believe can consistently outperform the indices with less volatility so we don't use ETFs very often. Sometimes, though, they do work well in our client's portfolios so we use them when appropriate.

HIGH FREQUENCY TRADING

A few weeks ago high frequency trading made the headlines when *60 Minutes* did an interview with Michael Lewis, author of *Flash Boys: A Wall Street Revolt*. Lewis is a well respected author of a few books about Wall Street and he's had experience there, working as a bond salesman at Solomon Brothers in the 1980's.

Lewis' book looked at high frequency traders that have set up their computers and internet connections to gain microseconds on other traders. By getting the trading information first they attempt to front run other orders and make small profits on lots of trades. The book suggests this advantage gives a few firms unfair profits at the expense of investors.

The media coverage has spurred investigations from the New York Attorney General, the FBI, the Justice Department and the SEC. They'll look into whether any securities laws are being broken and whether any rule changes should be made to try to level the playing field among investors.

Lewis' assertion is that the high frequency trading firms can reap tens of billions of dollars in profits without taking significant risks. While that's a lot of money we don't see it really costing the typical investor very much. There has always been a cost to buying and selling shares of stocks and those costs have come down significantly over the years. When we look to big mutual funds like the Vanguard 500 fund that emulate the cost-free S & P 500 index we see that the fund's return is right in line with the index, less the cost of running the fund. If the high frequency traders were taking even 0.1% from investors it would likely show up in reduced returns. High frequency trading may need to be addressed with regulatory changes but investors shouldn't worry that they are losing significant amounts of money to it.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning, and tax preparation.
Minimum portfolio $250,000 (401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail:
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James Burns, CFP, CPA James.Burns@VintageFS.com
Or visit our website at www.VintageFS.com

- Retirement Planning
- Education Funding
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- Income Tax Preparation

Plan to succeed.

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