Financial Advisor – What's in a Name?

As financial advisors, we find that one story repeats itself endlessly – when we start speaking with someone who learns that we work as financial advisors, we inevitably get peppered with questions about which stocks to buy, and what we predict will happen to the market tomorrow or next week. Perhaps you've gotten similar questions from folks upon mentioning a relationship with a financial professional. Here's what we wish everyone would ask instead:

Why do you love working with your clients?

Our clients are intelligent, thoughtful professionals and families, and we see our role as that of a partner, providing clarity around current and anticipated levels of financial security, with a process in place to make changes necessary to achieve financial goals. We aim to bring order to chaos, eliminating unnecessary complexity and putting all the moving pieces and parts of your financial life together in a structured manner. We save time and headaches by taking care of important details (especially the ones that might otherwise slip by unnoticed).

FIDUCIARY (fĭ-dōō'shē-ĕr'ē)
c. 1640, from the Latin root fiduciarius "in trust" from fidere "to trust."

One in a position of authority who obligates himself or herself to act on behalf of another – as in managing money or property – and assumes a duty to act in good faith and with care, candor, and loyalty in fulfilling the obligation to another.

We are coaches and accountability partners, collaboratively prioritizing your financial goals and working to achieve them through periodic meetings. But we are also more than that – we provide education to help you become more thoughtful stewards of your wealth, growing and preserving it. Our clients are smart enough to know that neither we at Rockwood nor anybody else can consistently and accurately predict the timing and magnitudes of market fluctuations, and so that's not how they measure results.

What are the key determinants of real-world, long-term investment returns?

Simply put, the key determinants are investor behavior and strategic asset allocation. Research has shown that most investors underperform the markets they are investing in by approximately 40% over most 20-year periods.[1] This underperformance is due mostly to investors basing their investment decisions on their emotions.

Purchasing items after prices have risen and selling them after prices have fallen is exactly the opposite of how we live our day-to-day lives but is regrettably how most amateur investors manage their portfolios.

Avoiding the cacophony and staying disciplined allow investors to achieve the rates of return to which they are entitled. If they have not been preconditioned for the right behavior, investors will fail to grow their wealth; and worse, their financial outcomes will seem more uncertain.

Research indicates that over 95% of a portfolio's movement can be attributed to its mix of asset classes.[2] Building an adequately diversified portfolio and allocating assets in a manner that maximizes returns for a given level of volatility is the core of professional portfolio design.

How is a comprehensive wealth advisor different from an investment manager?

Context. A comprehensive wealth advisor has the advantage of a complete understanding of a

1 DALBAR. *Quantitative Analysis of Investor Behavior.* 2016

2 Brinson, Hood and Beebower. *Determinants of Portfolio Performance.* 1995

client's goals and values. This allows the advisor to build a portfolio specific to these goals. Pure investment management has no regard for clients' needs, and thus recommendations are not tailored specifically to each client. Since strategic allocation is the second most important determinant of long-term returns (with only investor behavior being more important), how can an advisor build an appropriate strategic allocation without a full understanding of when and how that asset base will be relied upon? It can't be done. Additionally, a comprehensive wealth advisor has the expertise to provide guidance in a variety of ways that extend far beyond traditional portfolio management into areas such as retirement, education, life insurance, disability insurance, property and casualty insurance, strategic tax planning, estate planning, and family wealth transfer.

Do you have a fiduciary duty to always put your clients' best interests first?

Yes! We have written a piece in this newsletter (see The Department of Labor's Fiduciary Rule – What It Means) on the impact and importance of the new Department of Labor Fiduciary Rule.

We love working with our clients because they are looking not for a salesman, product-pusher, or market prognosticator, but for a true partner who will provide objective advice that both starts and ends with the clients' goals and values. All of us at Rockwood are here to deliver the best service we can – objectively and compassionately.

Rockwood Welcomes Kenny Bauer

The Rockwood team is growing – at the end of August, we welcomed Private Client Advisor Kenny Bauer. Kenny has over 20 years' experience in wealth management and financial planning, having assisted clients in more than 20 states as well as internationally. Before joining Rockwood Wealth Management, Kenny was a vice president and a planner for Marshall Financial Group in Doylestown, PA.

Kenny is a member of the National Association of Personal Financial Advisors (NAPFA), the Financial Planning Association (FPA), and the Bucks County Estate Planning Council, and he has been a Certified Financial Planner™ (CFP®) since 1999. He studied civil engineering and economics at the University of California, Berkeley, and earned his degree in business economics at the University of California, Santa Barbara.

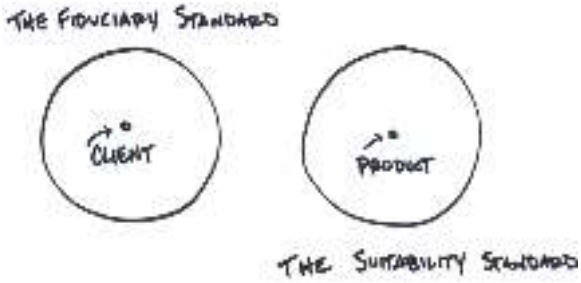
Within his first weeks at Rockwood, Kenny has already demonstrated that he always has a smile on his face. Moreover, his expertise in meeting the needs of corporate executives, clients in transition, and clients planning for multigenerational wealth is unparalleled. His tax prowess and passion for the community are a natural fit for Rockwood's culture of rigorous diligence and care in all aspects of work for our clients and neighbors. Kenny will continue to volunteer for the Travis Manion Foundation and the Boy Scouts of America and work as a lacrosse official in addition to providing valuable services to clients in his role at Rockwood.

The Department of Labor's Fiduciary Rule – What It Means

The Department of Labor's new ruling, called the "Fiduciary Rule," originally scheduled to be phased in April 10, 2017, through January 1, 2018, has been delayed, potentially to July 1, 2019. This ruling has been in the news with increasing frequency – as have the strong views of both its proponents and its detractors – so we wanted to share our take on the Fiduciary Rule and its impact on investors and our clients.

At the outset, the rule expanded the "investment advice fiduciary" definition, in order to elevate all financial professionals who provide retirement advice or work with retirement plans, binding them ethically and legally to meet the standard of fiduciary status. Brokers and insurance agents, as well as others working on commission, are expected to be impacted the most.

"Fiduciary" is a title that we at Rockwood wear proudly – it means that we are beholden to our clients and to operating in their best interests. By design, our fee-only structure ensures that we are paid only by our clients (rather than for peddling products). Our accountability is solely to our clients – and we wouldn't have it any other way. Eliminating conflicts of interest that can arise from a commission structure allows us to do our best work and to disregard any outside noise.



The difference between a fiduciary standard and a suitability standard can best be explained using the example of an experience most of us have had – purchasing a vehicle.

If you need a vehicle, a broker bound by the suitability standard would advise you to purchase a car that is "suitable" for you and your family. After a quick chat, the broker might say, "You should buy a Toyota Camry from Joe's dealership, and I will be happy to handle the transaction." You might think, "Great, I've heard of that car and dealership – let's do it," and then buy the car. Unfortunately, due to the tremendous lack of transparency around the transaction, you are unaware that you just paid $70,000 for a vehicle with a market price of $25,000. Also, you weren't informed that the broker has a relationship with Joe's dealership and gets a 5% kickback for going through Joe's rather than via more cost-effective avenues. Furthermore, when you get home you realize the midsize sedan that the broker deemed suitable is not in your family's best interests, as you have three growing children and need to be able to shuttle them comfortably from soccer practice to trumpet lessons with their gear and any friends who might be riding along. Bummer.

If, however, you decided to engage with a fiduciary, your experience would be quite different. During an in-depth discovery meeting, the fiduciary would uncover the uniqueness of your family situation. You might collaboratively determine that the vehicle that best meets your needs is a minivan. At this point, the fiduciary would negotiate with multiple car dealerships on your behalf to obtain the best financial terms on your new car. In the end, you walk away from this experience feeling confident in the knowledge that you have acquired the appropriate car for your family in the most cost-efficient manner. Hooray!

Pressure from many financial organizations to delay the Fiduciary Rule, citing costs due to lost commissions and added expenses of compliance, has contributed to the delay. Morningstar estimates that fiduciary standards could cost the financial services industry $2.4 billion per year by eliminating conflicts of interest like front-end load commissions and mutual fund 12b-1 fees. (We emphatically do not allow any mutual funds in our client portfolios

that have loads.) The fiduciary standard of care means a lot to us here at Rockwood, and we applaud the steps taken by the Department of Labor to require the use of this standard among an increased number of financial services professionals. We believe that everyone deserves to know that the advice they receive from a financial professional is in their best interests, and to receive transparency about any potential conflicts of interest.

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