



Advisory Accounts

Several times per year we are asked if we manage assets (commonly referred to as fee-based or advisory accounts). We have long had the capability to do so and in recent years have incorporated a third-party, fee-based platform for our clients who prefer this approach. Fee-based approaches allow us to use several different money-managers within the same account and incorporate some strategies that may not be available in a traditional mutual fund family portfolio. However, we feel it is important for our clients to understand the trade-offs in using this type of account...(Click below to download full text)

Instead of earning a one-time commission and an annual "trail" of .025% we would earn between 0.5% and 1.5% per year based on the assets under management (AUM). Nobody thinks to question this practice in an environment of double-digit returns. Perhaps clients accept sacrificing the cost of their investments when the markets are doing well. These fee-based management strategies of portfolio re-balancing, market timing, etc., do not necessarily result in better long-term returns for our clients compared with historical returns of the mutual fund portfolios we design. So, when considering an investment manager that is not a public mutual fund, ask the same questions we ask of organizations that want us to use their asset management services:

1. How long has your organization been managing money? (The longer the better over different market and economy cycles).
2. What have the returns (net of all costs and expenses) been on your best performing portfolio since inception and over the past 20, 15, 10, and 5 years?

3. Are your financial statements audited by independent third-party accounting firms?
4. What index is most relevant for comparing and benchmarking your performance?
5. What is the relevant background and experience for every person who manages your best-performing portfolio?
6. What research services do you use to pick securities for your portfolio, or do you make on-site research visits to companies you might decide to buy?
7. What are all the costs I pay for out of my investment portfolio and what do they pay for?

Remember, there is no free lunch. All investments have expenses, even the “free”, no-load mutual funds. The investor should seek to understand what the expenses are, how they are paid, and determine whether they are getting what they pay for.

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