

The CPA as the Ultimate Financial Advisor: Helping Your Client Continue Their Recovery

Marshall D. Gunn, Jr., CPA/PFS, CFP
Gunn & Company, P.A.
and
Gunn & Company Investment Management, Inc.

It's Different This Time!

GREED

followed by

FEAR

followed by

GREED

Have you seen the market?

Investor Ten Commandments

1. I will not confuse entertainment with advice.

The financial media is in the entertainment business. Their message can compromise my long-term focus and compromise my discipline, leading me to make poor investment decisions. I will turn off CNBC and turn on ESPN.

Investor Ten Commandments

2. I will stop searching for tomorrow's star money manager.

- There are no gurus!
- Capitalism will be my guru because with capitalism there is a positive expected return on capital. For me to succeed, someone else doesn't have to fail.

Investor Ten Commandments

3. I will not invest based on forecast.
 - I will recognize that the urge to form an opinion will never go away.
 - I won't act on it because no one can repeatedly predict the future.
 - It is, by definition, uncertain.

Investor Ten Commandments

4. I will keep a long-term perspective and appropriately consider my investment horizon (i.e., how long my portfolio is to be invested) when determining my performance horizon (i.e., the timeframe I use to evaluate results).

Investor Ten Commandments

5. I will continue to invest new capital.
 - I will work my plan because it is time in the market, not timing the market, that matters.
 - Timing the economics of the investment is not timing the market.
 - Ultimately, it is about growth and profitability that cause an investment to increase in value.

Investor Ten Commandments

6. I will adhere to my plan and continue to rebalance.
 - Systematically buying more of what hasn't done well recently rather than "unbalance" (i.e., buying more of what's "hot").

Investor Ten Commandments

7. I will not focus my portfolio in a few securities, or even a few asset classes, as diversification remains the closest thing to a free lunch. Money doesn't disappear, it moves.
8. I will ensure my portfolio is appropriate for my goals and objectives while only taking risks worth taking.

Investor Ten Commandments

9. I will manage my emotions by learning about and acknowledging the biases and cognitive errors that influence my behavior.
10. I will keep my cost of investing reasonable and acknowledge that I live in an "after-tax" world!

Real Returns

<u>Gross Return</u>	<u>Before Taxes</u>	<u>After Taxes</u>	<u>...and Inflation</u>
Stocks	11.0%	9.0%	6.0%
Bonds	5.5%	3.6%	0.6%
Cash	3.0%	2.0%	-1.0%
Gold	2.0%	1.7%	-1.3%

Inflation: 3.0%

Bonds, Cash and Gold have historically produced 0% real growth.

The purpose for holding Bonds in a portfolio is to dampen portfolio volatility.

The purpose for holding Cash in a portfolio is to provide liquidity.

Give Clients Concrete Examples

- Postage Stamp Costs:

<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>
\$0.15	\$0.25	\$0.33	\$0.44

- 30-Year Rate of Increase: 3.65%

Advisor Ten Commandments

1. I will ALWAYS put my client first!!!
 - If I fail to do this, the other nine commandments are irrelevant.

Advisor Ten Commandments

2. I will provide my clients with the amount of contact that THEY perceive is sufficient.
3. I will provide my clients with a written engagement letter.
4. I will work with my client to develop a written investment policy statement that matches my client's risk tolerance level.

Advisor Ten Commandments

5. I will provide my clients with regular portfolio reviews.
6. I will provide my client with full disclosure of ALL fees and charges.
7. I will provide my client with specific wealth management advice and strategies.

Advisor Ten Commandments

8. I will provide my client with specific advice on tax, estate planning, charitable giving or education savings.
9. I will provide my client with advice on all types of insurance.
10. I will provide my client with a written action plan.

It's a RELATIONSHIP!

- Clients do not care how much you know until they know how much you care!
- It is the little things that count.
- Remove any direct benefit to you.
- Be consistent in your application.
- Automate the execution of your best practices.

Fiduciary Standard

- Financial firms and professionals are required to act in the best interests of their clients.
- Advisors are supposed to disclose conflicts of interest.
- Advisors are NOT to put maximizing their own compensation and earnings ahead of their clients'.

Fiduciary Standard

- Applies to financial advisors regulated by legislation dating back to 1940:



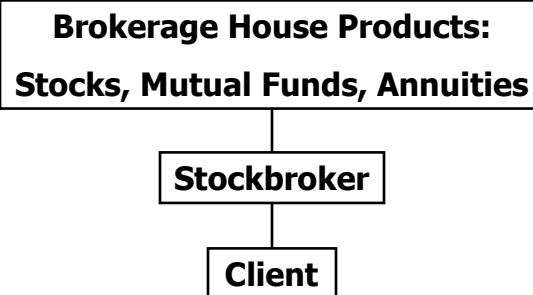
Suitability Standard

- Clients receive recommendations that are suitable or appropriate to their circumstances.
- Firms or professionals are NOT required to put their clients' interests first.
- They are NOT required to disclose any conflict of interest.

Suitability Standard

- Allows financial firms to design and market securities that primarily serve the interests of issuers rather than those of buyers, most notably retail clients.

Suitability Standard



Basic Rules of Financial Planning

- Know your value and be paid what you are worth or be rewarded appropriately for the level of risk you are taking.

Basic Rules of Financial Planning

- Spend less than you make:
 - Tithe
 - Save
 - Spend

Basic Rules of Financial Planning

- Save systematically.
 - Financial independence is less about return and more about time:
 - \$250/mo @ age 25 @ 6% = \$360K @ age 60.
 - \$300/mo @ age 35 @ 9% = \$340K @ age 60.
- DRIPs
- Rule of 72

Basic Rules of Financial Planning

- There IS such a thing as "GOOD" debt:
 - Roof over your head.
 - Car under your feet.
 - Diploma on the wall.

Basic Rules of Financial Planning

- Know your savings goal.
 - Short-term goals are more effective than long-term.
 - Saving \$100 per week is psychologically easier than saving \$5,000 per year.
 - The longer the vision required, the harder it is to stay motivated.

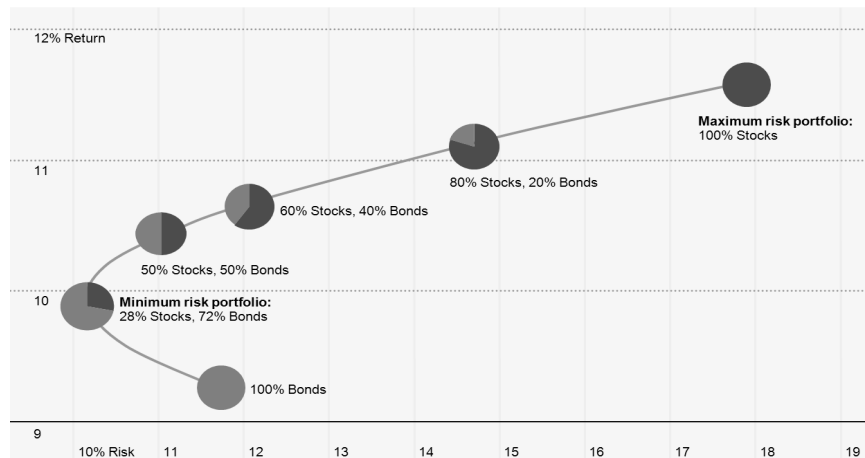
Basic Rules of Financial Planning

- Invest those savings!
 - Boring is better.
 - What is so bad about equaling the indices? No one beats them consistently!
 - Automate.
 - Invest before you can get your hands on the money.
 - Payroll-deducted 401(k), savings, etc.
 - Marshall's money management.

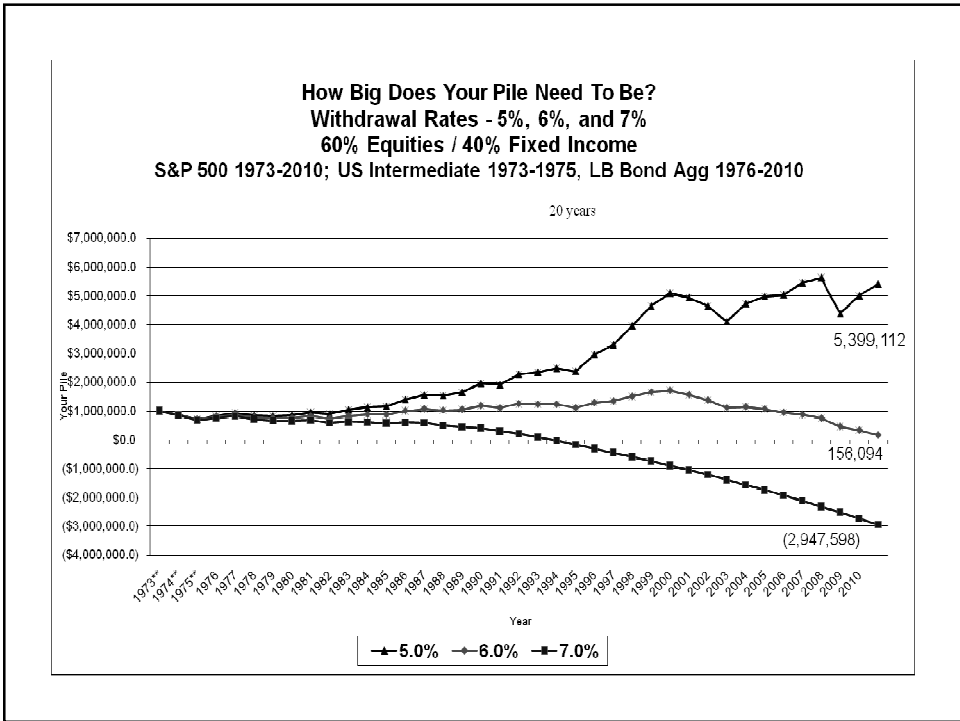
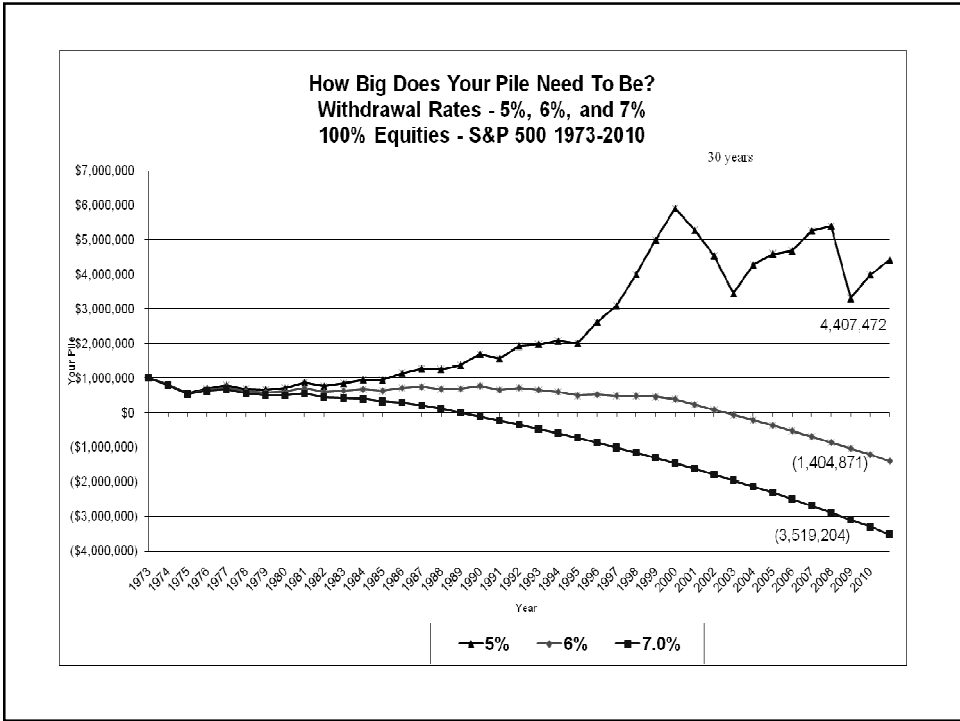
Basic Rules of Financial Planning

- Invest those savings!
 - Rebalance.
 - There is no financial aid for retirement.
 - The #1 fear of retirees: Will I outlive my money?

Stocks and Bonds: Risk Versus Return
1970–2010

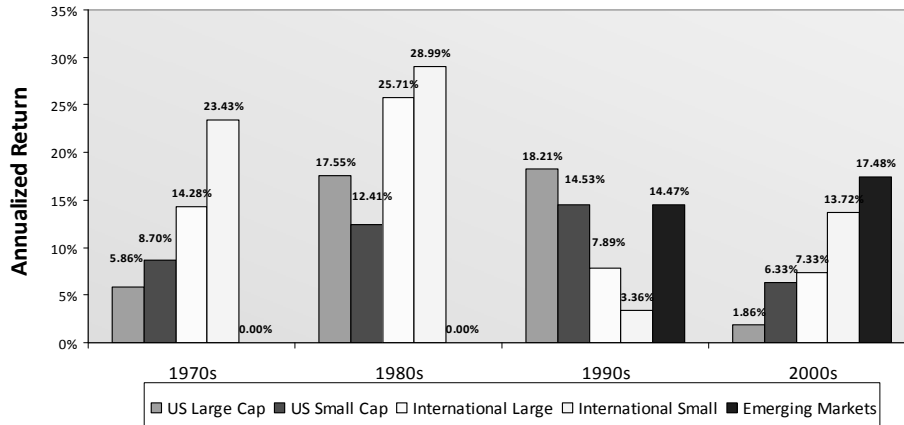


Past performance is no guarantee of future results. Risk and return are measured by standard deviation and arithmetic mean, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2011 Morningstar. All Rights Reserved. 3/1/2011

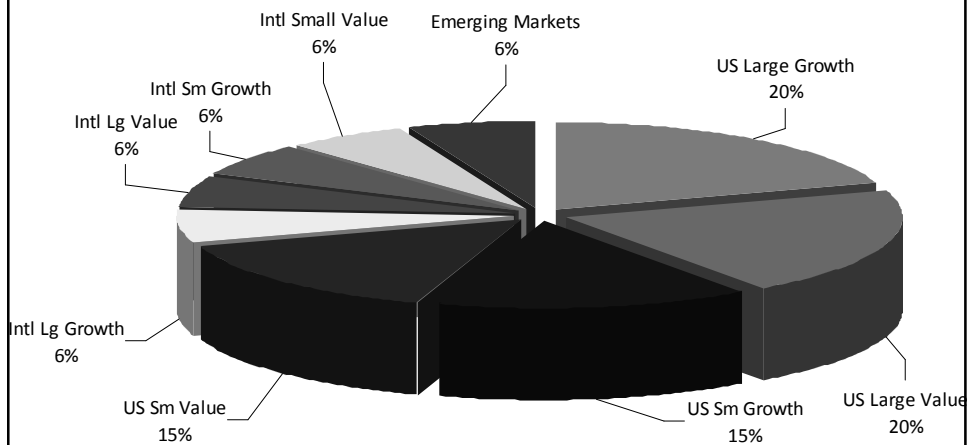


Diversification

Asset Class Performance by Decade



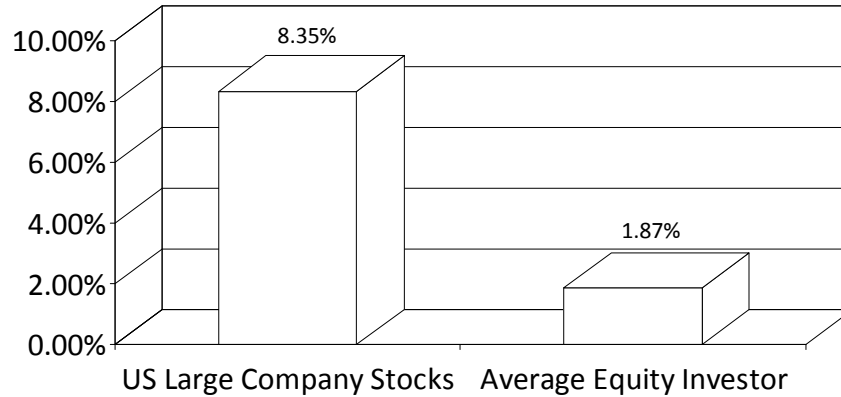
Diversified Equity Portfolio



Investors Are Doomed On Their Own

20 Year Period Ending 12/31/2010

Source: Dalbar



Don't Fear the Bear

What about Bear Markets?

Maintain Discipline: No panic, No sell

Bull Market Top	Bear Market Bottom	# Days Duration	% Decline in S&P 500
5/29/46	5/17/47	353	-23.20%
4/6/56	10/22/57	564	-19.40%
12/13/61	6/26/62	195	-27.10%
2/9/66	10/7/66	240	-25.20%
12/3/68	5/26/70	539	-35.90%
1/11/73	12/6/74	694	-45.10%
9/21/76	2/28/78	525	-26.90%
4/27/81	8/12/82	472	-24.10%
8/25/87	12/4/87	101	-33.50%
7/16/90	10/11/90	87	-21.20%
7/17/98	8/31/98	45	-19.30%
3/24/00	10/9/02	915	-49.14%
10/12/07	3/9/09	514	-56.57%
	Average	403	-31.28%
Growth of \$1,000 in the S&P 500 from June 1946 - December 2009		1946	\$1,000.00
		2009	\$581,690.00

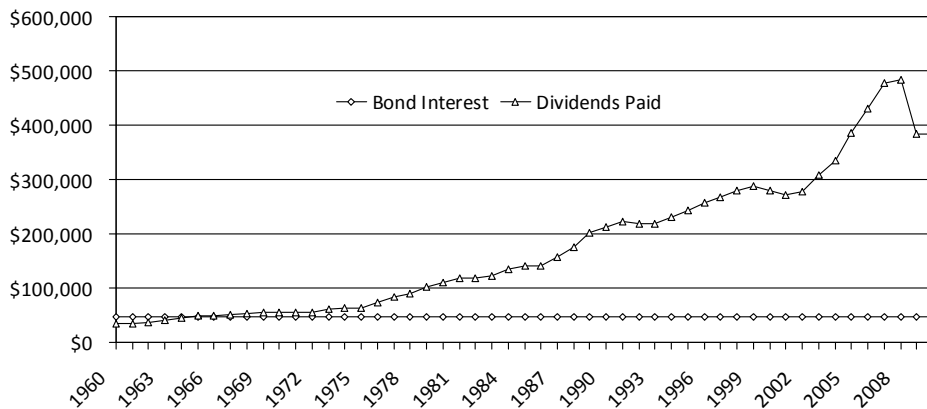
Source: Nick Murray's Simple Wealth, Inevitable Wealth and Morningstar

Investor Behavior is Infinitely More Important than Investment Return

CGM Focus Fund	
1-1-2000 – 12-30-2009	
#1 Performing Mutual Fund of the Decade	
Annualized Return:	18.20%
Dollar-Weighted Shareholder Return:	-11.00%
Source:	Morningstar

Rising Dividends vs. Fixed Income

**Dividends Paid on \$1MM by S&P 500
vs. Bond Interest on 10-Year U.S. Securities**



Basic Rules of Financial Planning

- Duck and Cover!
 - If you can't afford to replace it... insure it!
- Life Insurance
 - If someone depends on your income and wouldn't be able to replace it if you died, you need insurance.

Basic Rules of Financial Planning

- Health Insurance
 - Your heart will stop beating and that tumor will grow! Medical debt is the #1 cause of personal bankruptcy.
- Long-Term Care Insurance
 - See Children Magically Disappear!
 - Disability Insurance
 - You Really are Worth More Dead Than Alive

Basic Rules of Financial Planning

- Four Pieces of Paper
 - Living Will
 - Health Care Proxy
 - Durable Power of Attorney
 - Will
 - Intestacy
 - Personal Representatives
 - Selecting a Child's Guardian

Basic Rules of Financial Planning

- Instruction Video
- Legacy Will

Basic Rules of Financial Planning

- There will be INFLATION!
- Your clients will get ILL!
- Your clients will DIE!
- Will the children play "NICE"?
- Trust vs. Trust

YOU, the CPA, Make the Best Advisor!

- What is the client's present status?
- Building a Family Permanent File.
- Identifying goals and objectives.
- Understanding investment alternatives.
- Planning for education, retirement, estate.
- How much do you need to be financially independent?
- Implementation Assistance.

YOU, the CPA, Make the Best Advisor!

- Don't let us see your tax return... unless you intend for us to use it!
 - AICPA: Analysis of a Tax Return for Personal Financial Planning.
 - AICPA: Statement of Responsibilities in Personal Financial Planning.
 - AICPA: 360 Degrees of Financial Literacy.
 - Our profession has a plethora of resources.

Role of the Financial Trainer

- Your role is less of a Financial Advisor and more of a

FINANCIAL TRAINER

- Listen carefully!!!
- Discipline
 - Sticking to the plan when things are not going according to the plan.

Role of the Financial Trainer

- Accountability
 - Clients are seeking application, not information.
- Confirmation
 - Clients know what to do... it is keeping them on the task that they are seeking.
 - "I know what Suze Orman is saying. How does it apply to my situation?"
- Reinforcement
 - You are doing the right thing in the long-run!

Putting it All Together

- Where are they NOW?
- Where do they want to be?
- How much does it take to get "there"?
- What sacrifices does it take to get "there"?
- When is it too late to start?

Your Questions and The Answers to Them!

Marshall D. Gunn, Jr., CPA/PFS, CFP
Gunn & Company, P.A.
and

Gunn & Company Investment Management, Inc.
4350 Pablo Professional Court
Jacksonville, Florida 32224
904-296-2024
mgunn@gunncocpas.com