



MILNE FINANCIAL PLANNING, INC.

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Newsletter 2005

This past year was great. My term as NAPFA's (National Association of Personal Advisors) Chair is over as well as my term on the Board. I would be kidding if I said it was not a lot of work, it was; but it also was a lot of fun. The experience was well worth the extra effort.

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Discretion – I recently registered as a discretionary advisor. I am now able to trade client accounts who custody their money at TD Waterhouse. Previously, any of my investment recommendations were implemented by the client, though often with my help. Clients decide if they would like me to have discretionary authority for their account. For those clients who give me the authority, I will review any trades with the client before making changes. By having discretion, I can better service the growing client base. It is also more efficient administratively.

Services – The Financial MFP Review is a new service. New clients now have three options: the Financial Check-Up, the Financial Tune-Up and the Financial MFP Review. The advantage of the MFP Review is that it includes a full written report as well as an additional meeting to begin implementation.

Fees – The Financial Check-Up: \$650, the Financial Tune-Up: \$950, and the Financial MFP Review: \$1,500. The on-going service fee calculations have not changed, however, the minimums for these services have increased. For a listing of fees you may either request our Services Newsletter or visit www.milnefeeonly.com. You may also request a copy of the Form ADV, which discloses all fees and services.

Jessica Riner, Consider it Done – In the advisory industry many of us hire virtual employees. Jessica has been working with me for over a year now. She lives in Jacksonville, Texas and her business is

supporting financial advisors. She handles many of the administrative tasks. Her profile can be viewed at www.milnefeeonly.com in the "Who We Are" section.

NAPFA BOARD – Past Chair

After three years on the NAPFA Board and serving this past year as the Board's Chair, I learned more about the financial planning industry than I will ever use. One of the more interesting discussions involved advisor fees and the conflict of interest inherent in those fees.

Conflicts of Interest – A NAPFA member takes a fiduciary oath (the advisors first interest is to serve the client) and practices in a Fee-Only manner (no commissions, products or commission trails). NAPFA members are free to create their own business models. Members set their own fee methods and rates, the most common methods being hourly, fixed fee, retainer (generally a percentage based on investable assets or net worth) and assets under management (a percentage of the money the advisor manages). NAPFA members consider themselves independent, unbiased and as conflict free as possible.

A few months ago, a member publicly questioned other members who charged based on assets under management. Since the advisor's fee is based on only those assets that the advisor manages, this means other money the client may have, such as 401k plans, 403b and other brokerage accounts are not used in calculating the client's fee. It is in the advisor's best interest to have this 'other' money under his/her management (the advisor fee increases with more money being managed by the advisor). This is one reason my retainer fee is based on all investable assets. Also, if the client asks the advisor if it is better to pay the mortgage off, the advisor's fee will decrease as investments are used to pay the mortgage.

Milne Financial Planning is a fee-only advisor by choice! Milne Financial Planning adheres to NAPFA's Fiduciary Oath and offers investment and financial advice with a difference! Fiduciary Oath: "I shall act in good faith and in my client's best interest at all times. I shall provide written disclosure to my client of any conflicts of interest that may compromise my impartiality or independence. I shall not accept any referral fees or compensation that is contingent upon the purchase or sale of a financial product."

What are my conflicts?

1. If you are an hourly client, it is in my interest to expand the scope of the project.
2. If you use one of the fixed fee services, it is in my interest to have you choose the most profitable service.
3. If you are a retainer client, though my fee includes all investable assets, I am in conflict when you ask me if you should pay off the mortgage. If you do, my fee decreases.

I learned from the discussion that no matter how hard I try, I will never remove all conflicts of interest. If you are concerned about conflicts, please ask me.

AFTER NAPFA

Of course, never one to sit still, I am currently on NAPFA's Consumer Foundation Board and serve on NCFP's (National Council for Financial Fiduciaries) advisory board.

CLIENT PROFILE - College

The situation – Jack, a long term client wanted to do something for his grandchild's education. **The problem** - Jack asked me what I thought was the best investment. **The recommendation**– There are many ways to save for a grandchild's education. I like the 529 plan. A 529 plan is an educational savings plan. Its main advantage is that though Jack gets no tax advantages when he adds money to the plan, once the money is deposited it grows tax free. Any interest, dividends or capital gains are not taxed provided the money is used for college as stated in the guidelines. The money needs to be used by the time Jack's grandchild is age 30, if there is unused money Jack will pay a 10% penalty and taxes on the unused money. The money can also be used for private school and could be transferred to Jack's other grandchildren.

529 PLANS

The easy part is recommending using a 529 plan. Deciding on the right 529 plan is more difficult. Each state has its own plan, some have more than one; the brokerage houses have their own plans. If your state has specific state tax breaks, then your state's plan is generally the one to use, but most states do not have specific state tax breaks allowing you to choose any

state's plan. For Jack's nephew, I recommended Utah's moderately aggressive age-based allocation.

Things to look for in a 529 plan include:

- Low overall costs. Vanguard, a low cost provider, administers many state plans, but each state sets its own fees, so not all Vanguard plans have the same expenses.
- The aggressiveness of the investment. Some of the aged based portfolios are more aggressive than I like as the child gets older.
- Diversification. Look for a diversified portfolio, including international and small cap options.
- Commissions. Avoid broker sold funds, they have unnecessary commissions.

INDUSTRY ISSUES – The Merrill Lynch Rule

There has been a lot of press about the Merrill Lynch Rule. This rule essentially allows brokers to provide investment advice and planning advice to their customers without registering with the SEC (Securities and Exchange Commission). The current regulations exclude registration when planning advice is "incidental" to their business. Independent planners, like me, are registered either with the SEC or the state(s) in which we have clients (I am registered in VT and NH). Registered advisors believe all advisors who call themselves planners should be registered. Though brokers still do not have to register, the SEC is requiring an interesting disclosure for brokers to use:

"Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. ...Therefore, our profits, and our salespersons compensation, may vary by product and over time."

I am not sure how it will be presented to brokerage clients, but it is a powerful statement. Of course, the only thing that has changed is the disclosure; broker's interests are still the same.

ADV FORM and PRIVACY STATEMENT

If you would like a current copy of the FORM ADV for Milne Financial Planning, Inc., you may call, email, write or visit us on the web at www.milnefeeonly.com. If you misplaced our privacy policy or would like another copy, you may call, email, write or visit us on the web.