April 4, 2018

Wenzel Analytics Inc

Clients,

The ending of our relationship with Scottrade has precipitated major changes, not only in the custodian relationship and functions, but in my larger business model.

Custodians

The move to Motif Investing was more work for all of us than I might have imagined. Additionally, many of the advisor custodian functions that I had assumed to be standard are not available or are prohibitively expensive given the scale of my business. I had a long paragraph here detailing the shortcomings but decided they are more my issues than your issues. What matters is that I can't offer a better custodian. The Schwab retail platform gives comparable access and ease of trading with a very smooth data download and data reconciliation. However, management fees could not be withdrawn from the accounts. Fees for IRA accounts would have to be paid with after-tax funds rather than pretax as done currently.

Since several clients decided to not move to Motif Investing, and since even at Motif trading requires accessing individual accounts, I have decided to allow clients to use their preferred custodian. In situations where I manage a portion of someone's assets, many clients and potential clients prefer to custody their funds in one place. I need Open Financial Exchange (OFX) or a similar supported data download import format, and a limited power of attorney (POA), (not available from Fidelity).

Financial Services Looking Backward and Forward

The difficulty in finding a custodian made me realize that I'm somewhat unusual in what I'm trying to do as a solo practitioner. What I offer is a boutique service as I assemble and review each of your portfolios and positions. This is in contrast to the mass-produced commoditization with glossy reports from larger scale financial organizations.

As part of being a one-person, personal service I'm interested in doing more to give data and perspectives on the probabilities that your funds are sufficient for future needs. I would encourage you to work with me and have begun to offer the review service with a fee to non-clients.

In addition to looking forward, I have come to realize that the problems encountered when looking forward derive from our individual histories and values related to money. We all carry scripts for how to manage and mismanage money. It is easy for behavioral finance to identify all the irrational things we do relative to risk, loss and money. It is even possible to make money on the dumb things people do regarding their investments, such as the Buying the Dips strategy documented in the Performance Summary. However, to change or even claim the irrational things we have learned to do, we need to dig into our stories of how our money scripts and identities were formed. It is easy to find articles documenting how many baby boomers are financially unprepared for retirement. Even for those with a million in an IRA, few know the chances of whether that will be sufficient. We will not necessarily change merely by coming up short one day or waking up one morning with a sudden realization.

All of that is to say that before doing Monte Carlos and laying out future probabilities, I want to offer a group experience to five or six people where at each monthly meeting someone spends an hour or more telling the story of their experience and decisions regarding money. For non-clients, there will be a fee of $100 for the series. I will set a regular date once I know who has an interest and what best fits their schedules. The developmental task of our later years is to tell and refine our stories and identity. How have we each gotten to where we are? Have you had a chance to tell that story?

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Portfolios Framed by Goals in addition to Strategy

As you may have already encountered in the reports, I've categorized all portfolios according to the portfolio's goal relative to the market. The breakout by methodology is my issue; the breakout by goal is more your issue and about which we need consensus in order to do appropriate allocation. The reports use an equal-weighted benchmark for portfolios designed relative to the market, and a preferred stock ETF as a benchmark for portfolios oriented more to absolute returns independent of the market. After having written the Performance Summary and your individual reports, it feels right.

New Fee Schedule

With all the work of moving and then reconciling accounts, I realized two things. One is that I need more clients to justify fixed expenses of time and money necessary to function efficiently. It takes a certain scale to justify the expenses of data and information services, as well as keeping current in developing viable portfolios. I haven't done enough over the last ten years to compensate for normal attrition as clients buy houses or become discouraged with normal variations in returns.

My second realization is that my current fee schedule doesn't very well reflect variations in time required and discourages the larger accounts necessary for the business to be viable. The new fee schedule adjusts for added complexity of multiple accounts within a household and balancing an allocation across those accounts.

The current fee schedule per quarter is .25% of assets plus $50 per household. The new fee schedule beginning April 1 is .15% of assets plus $150 per household and $25 per account. The annual fee reduction for a single account of $500,000 will be $1,500; for $500,000 in a household with five accounts the reduction will be $1,100. The change based on your current assets is included on your current invoice.

For some of you, good news. For others not so good but hopefully understandable and manageable.

Schedule a Review

For each of you, I welcome opportunities over lunch or the phone to discuss this report and your personal goals and situation.

Thanks,

Lee