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Seasonal Musings

August 2009

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). In this issue, we'll be discussing target date funds, financial advisor certifications, and other recent developments. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

In the Crosshairs

Target-Date Funds Under Scrutiny

Target-date funds, mutual funds whose asset allocation is geared towards the planned retirement date of its investors, are being scrutinized by the SEC. Regulators are upset by the recent performance of these funds. Specifically, they are concerned that the subset of funds being managed for investors planning to retire around 2010 fell by almost 24% last year. Far be it for me to defend the mutual fund industry, but investors got what they paid for, and regulators got what they asked for.

Wall St. and the mutual fund industry create financial products for which they believe there will be demand from investors and brokers, without regard to whether investors have the ability to determine what's best for themselves or to whether they can rely on the advice of financial salespeople.

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You want tax deferral and a guaranteed minimum return? Here's a fixed annuity, but we get to determine the interest rate, and surrender charges will make sure you stick around. You want to choose from a variety of mutual funds and still benefit from tax deferral? Here's a variable annuity, but the menu of funds will only include our proprietary ones and others from fund families who pay us for the privilege, let's not discuss fees and eventual tax treatment (and again surrender charges will make sure you stick around). Want absolute returns regardless of stock market performance? Here's a hedge fund with high fees regardless of returns, tax inefficiency, lack of transparency, and oh yes, restrictions on withdrawals in case we don't live up to our promises. And so on.

Criticizing the financial industry for responding to demand from the investing public is like criticizing McDonald's for offering Super Size fries or 7-Eleven for offering Big Gulp sodas. Some of the investing public believe they want cheap, one-size-fits-all retirement planning with mechanical rebalancing of their investments. They got it in target- date funds.

For their part, regulators contributed greatly to the demand for, and widespread acceptance of, target- date funds when they legislated that the funds could be offered by employers as Qualified Default Investment Alternatives in retirement plans. In their defense, regulators had sound motive in that they wanted a better alternative to money market and stable value funds as default investment options. For retirement plan participants who can't afford customized financial advice, who have no investment assets outside the plan, who can't be bothered to pick funds from their menu of options, and who would otherwise be invested in money market or stable value funds, target-date funds are a step in the right direction.

Just as with fixed and variable annuities, hedge funds, and the plethora of other financial products Wall St. produces, target-date funds can play a role for some investors. But the majority of investors would benefit from a more customized approach to portfolio construction, rebalancing, and retirement planning. Target-date funds don't incorporate personal differences in risk tolerance, and in retirement income sources and needs, and they don't account for the existence of other retirement assets. These funds also typically constrain the investor to a particular set of funds from one family and often impose an extra layer of fees. And frankly, reaching retirement shouldn't necessitate a quantum change to an investment portfolio in these days when retirees frequently live for decades after. Retirement, like financial planning, is a process, not an event.

Alphabet Soup

An Examination of Financial Advisor Certifications

In the last issue of Seasonal Musings, I suggested that consumers in the process of vetting financial advisors include training, certifications, and continuing education among their selection criteria. After all, the most well-meaning, client-centric, fiduciary advisor is only as good as his knowledge base, experience, and skill set.

Unfortunately, many of the designations and certifications floating around the financial services industry are nothing but marketing ploys requiring a minimum of study, open-book tests, and a membership fee. Thankfully, various states are beginning to crack down on bogus certifications, especially those aimed at misleading seniors. For more information on this issue, please check out the following [link](#).

"...be aware that Financial Analyst, Financial Adviser (Advisor), Financial Consultant, Financial Planner, Investment Consultant or Wealth Manager are generic terms or job titles, and may be used by investment professionals who may not hold any specific designation."
--- FINRA website

For those of you complacent in the knowledge that your financial advisor knows what he's doing, check out the following PricewaterhouseCoopers survey results reported recently in a [New York Times article](#).

Among wealth managers who advised clients with \$500,000 to \$20 million:

* only 7 percent said they felt strongly that they had received adequate training to complete their job to the highest standard, and

* some 36 percent said they believed they were not fully qualified to do their job.

The article rightly goes on to conclude: "Why haven't firms addressed this issue? The leading suspect is the industry's focus on advisers who can bring in clients with lots of assets as opposed to advisers who can actually counsel clients."

"The Chartered Financial Analyst (CFA) qualification is roughly equivalent to a specialized postgraduate finance degree including a mixture of economics, ethics, law and accountancy."
--- the Economist magazine

"The CFA Program is the gold standard among investment analysis designations"
--- the Economist magazine

A New Health Insurance Resource for Utahns:

Utah Health Exchange [press release](#)

Utah Health Exchange

Odds and Ends

For those of you who enjoy the view from our East Bench office, we're happy to announce Five Seasons has just renewed our lease for another 3 years here at Eagle Plaza.

Five Seasons Financial Planning LLC is a Fee-Only investment advisory firm registered with the state of Utah. Five Seasons offers integrated wealth management, as well as investment counseling and financial planning services. To view past issues of "Seasonal Musings", click [here](#).

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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