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Leeward Financial Partners

*Explains What it Means to be a
"Fiduciary to Yourself"*

In last year's Sponsor Spotlight on Leeward Financial Partners, LLC, we introduced them as a bespoke Wealth Advisor with decades of institutional experience working with some of the largest institutional clients and consultants around the globe. This year, we thought we'd focus on what it means to be a "Fiduciary to yourself."

One of the biggest differences we have found in working with individuals and families as opposed to Institutional clients is the concept of what it means to be a fiduciary. A fiduciary by its very definition is "a person who acts in good faith and without conflicts of interest." Trustees of foundations or corporate pension plans are obligated as a "fiduciary" to act in their beneficiaries' best interest in all they do. They are not expected to make perfect decisions; however, they are expected to actively ask questions and improve where they can in a prudent manner. One way they fulfill this duty is by doing periodic due diligence on investment performance, investment costs (fees), portfolio risk, and any other factors that will impact their ability to deliver the best outcome for their participants or beneficiaries.

Generally, individuals are not diligent fiduciaries of their own money. While this is not always the case, our experience has shown us that individuals vary in what's personally important to them. This can cause mediocre long-term performance if you're not careful. Some comments frequently shared include:

- I don't know what I pay in fees. If I'm making money, I'm happy with that.
- I really like my advisor. He or she is nice and considerate.
- I know I should review what I'm doing but I don't know who to trust and I don't want my advisor to be offended or think I don't trust them.
- Even if I know I should do something different, moving my accounts is confusing and difficult to figure out.
- I know I need to review my portfolio and fees, but I don't have time to deal with this with everything else going on in my life.

These statements are all very real and feel very daunting to the individuals who are dealing with them, but ask yourself, "ARE THEY BEING GOOD FIDUCIARIES TO THEMSELVES AND THEIR FAMILIES?" If you are like most Americans today, you realize that Social Security is only a safety net and are not relying on federal benefits to provide realistic retirement income. Therefore, it is immensely important to treat your own assets carefully with good stewardship and fiduciary care. You owe it to yourself and your family!

To emphasize the significant impact a small fee improvement can have on your portfolio's end result we offer up this example. The table below shows a comparison of two 1 million-dollar investment portfolios--one growing at 8 percent a year and the other growing at 8 ½ percent a year. The half-percent difference of lower fees over 20 years will net you an additional \$451,089 to spend in retirement. This is a big deal! With most portfolio re-

views we have done for prospective clients over the last year, we have been able to significantly improve the "underlying investment product cost" of their portfolio by half to three-quarters of a percent or more. This is one portion of the investment equation that **can be controlled** with diligent management. So now as a "reformed" good fiduciary to your money, what should you be reviewing in your own investment portfolio?

We believe that these four investment pillars, if consistently applied, will generally lead to long-term success:

Hire an experienced independent Wealth Advisor.

Look for advisors that have their interests closely aligned with yours and are clear about how they charge **all** their fees. Many of the Brokerage Houses and big banks hire good salespeople, teach them the business, get them licensed, and turn them loose on their clients. They often sell model portfolios and proprietary investment products only available through their firm and can include additional layers of fees. These products are constructed to be sold in scale rather than customized to individuals. Also, please remember that ALL salespeople are "nice and considerate." If they weren't, they wouldn't be successful salespeople. Being "nice and considerate" should also be considered in addition to "experienced and independent" to ensure they are always working in your best interests, not theirs.

Pay as little for your underlying investment fees as you can.

This means avoiding expensive mutual fund fees whenever possible. As technology has evolved and investment products have evolved with it, Exchange Traded Funds (ETF's) when properly utilized can provide good, diverse investment choices for your advisor to use at a fraction of the cost. In addition, custodians like Charles Schwab don't charge trading commissions on stocks or ETFs. This will leave more fee money in your pocket!

Make sure you are getting paid for the investment risk you are taking.

One measure of risk we like to show our clients and have used extensively throughout our careers is the Sharpe Ratio. This and other tools help us explain to clients how much return they have received for each unit of risk taken in the portfolio. It's an efficiency ratio like miles per gallon in your car and can help ensure you minimize potential underlying volatility risk in your portfolio you don't know about.

\$1,000,000	8.5%	8.00%	
Years	Growth at 8.5% per year	Growth at 8.0% per year	Compound savings each year
0	\$1,000,000	\$1,000,000	\$-
1	\$1,085,000	\$1,080,000	\$5,000
2	\$1,177,225	\$1,166,400	\$10,825
3	\$1,277,289	\$1,259,712	\$17,577
4	\$1,385,859	\$1,360,489	\$25,370
5	\$1,503,657	\$1,469,328	\$34,329
6	\$1,631,468	\$1,586,874	\$44,593
7	\$1,770,142	\$1,713,824	\$56,318
8	\$1,920,604	\$1,850,930	\$69,674
9	\$2,083,856	\$1,999,005	\$84,851
10	\$2,260,983	\$2,158,925	\$102,058
11	\$2,453,167	\$2,331,639	\$121,528
12	\$2,661,686	\$2,518,170	\$143,516
13	\$2,887,930	\$2,719,624	\$168,306
14	\$3,133,404	\$2,937,194	\$196,210
15	\$3,399,743	\$3,172,169	\$227,574
16	\$3,688,721	\$3,425,943	\$262,778
17	\$4,002,262	\$3,700,018	\$302,244
18	\$4,342,455	\$3,996,019	\$346,435
19	\$4,711,563	\$4,315,701	\$395,862
20	\$5,112,046	\$4,660,957	\$451,089

Ask questions and be an educated financial consumer. By asking thoughtful questions and having an open mind to "bid out" your business on a 3- to 5-year cycle, you will be a better fiduciary to yourself and improve your long-term probability of success. Read the fine print and take notes. You don't want to get to retirement only to realize it's too late to make meaningful adjustments to your portfolio. Nobody wants to hear, "You could always work longer or spend less." We believe most people would like to have the financial flexibility to choose, not be told, what their options are.

If you would like to discuss how to be a better "Fiduciary to yourself," the professionals at Leeward would be happy to give you an unvarnished assessment of your portfolio and what areas you might want to focus on with your advisor. Leeward Financial Partners, LLC, principals average over 25 years of investment experience and are located in Bellevue.

