WINTHROP PARTNERS

Wealth Planning & Investment Management

Financial Services: Practices & Fees

Doylestown, PA | Pittsburgh, PA | Buffalo, NY

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NOTICE: The descriptions contained herein are general indicators of fees and practices that an investor will likely encounter, and should not be relied upon to include every variation of products, services and fees.

IN CONFUSION THERE IS PROFIT.

The Financial Services Industry is large complex and confusing. Despite the well intentioned efforts of regulators, there still exists a number of gray areas, questionable participants, opaque practices and opportunities for outsized fees. Within the Financial Services Industry the saying “In confusion there is profit” is often quoted by the less savory participants.

This Winthrop Partners White Paper is designed to shed some light on the industry and provide, in layman’s terms, a guide to the industry participants and vehicles that an investor might come in contact with while searching for an advisor. Hopefully this white paper makes transparent some of the most common opaque practices in the Financial Services Industry.

Essentially the industry can be divided among Fiduciaries and Commissioned Sales People and the products that the two utilize. An SEC or State licensed Fiduciary is required to put the client’s interest first, negotiate for the client’s benefit and disclose any conflicts. Commissioned Sales People are not held to these standards

RIGHT: The Individual Investment Sector of The Financial Services Industry as seen in quadrants. Commissioned Sales People vs Fiduciaries (Fiduciary puts the clients first negotiates on your behalf and discloses all conflicts).

	Commissioned Salespeople	Fiduciaries
Practitioners	Bank Brokers, Salespeople & Private Bankers Hybrid RIAs (RIA + Broker Dealer) Stock Brokers Insurance Brokers/Agents Fund & Ins. Cos. With Broker-Dealer CPAs & Attorneys* Financial/Wealth Planners*	Registered Investment Advisors “RIAs” Fee-Only RIAs Trust Officers
	Products With Embedded Commissions	Products With No Embedded Commissions
Products	Annuities (Fixed & Variable) Insurance Products A-Share Mutual Funds B-Share Mutual Funds Structured Notes Closed End Funds	Stocks Bonds Exchange Traded Funds Institutional Class Mutual Funds Certificates of Deposit

* Most CPAs and Lawyers who entered the investment business have since exited. The remainder are split between the Brokerage and RIA Model. Financial Planners who provide Investment advice are also split between Brokerage and RIA models

RIAs that are Fee Only Fiduciaries

A Fee-Only Fiduciary is potentially the most conflict-free Financial Advisor that you can engage for your wealth management needs.

A Fiduciary is a person that must put the interests of their client in front of their own interests and must disclose any conflicts of interest with the client. Being Fee-Only means the Fiduciary is only compensated by a single fee (usually based on a percentage of the client's assets under management) and does not accept commissions or other financial incentives that could sway their judgement. In short, Fee Only Fiduciaries are on the same side of the negotiating table as you and strive to meet your investment goals by placing you in the best possible investments, at the best price and with the lowest fee.

A best practice of a Fiduciary is to have a third party, like a large Bank or Brokerage serve as your custodian. This is done principally to protect your assets from malfeasance as a third party is holding and verifying your assets. Additional benefits of a third party custodian can include integrated low cost execution services and access to new financial technologies including mobile and online investment services

Provider Type: RIAs that are Fee-Only Fiduciaries

Familiar Names: Winthrop Partners

How To Identify: Website and SEC Form ADV

How Compensated: Single Fee based upon a Percentage of Assets under Management

Commissions: No Commissions Accepted

Commission Type N/A **Rate Range %** N/A

Commission Type N/A **Rate Range %** N/A

Commission Type N/A **Rate Range %** N/A

Disclosure of Conflicts of Interest: Required

Act as Client's Fiduciary: Required

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Hybrid and other RIAs that Accept Commissions

Most RIAs operate in a fee only capacity. However some RIAs may offer ancillary services like Life Insurance or Annuities for which they accept a fee. Additionally there are firms that are hybrids which offer commissioned based products through their Broker dealer subsidiary.

In both of these instances the firms have significant conflicts of interest. RIAs offering insurance or other products must disclose these conflicts. However the SEC is considering treating Hybrid's as B/D and they need not disclose conflicts. Whereas a Fee-Only Fiduciary may advise on the purchase of insurance, they will not receive a commission for doing so. The simple act of receiving a commission creates a conflict, or an appearance of conflict with a client as a commission can influence an advisor's decision.

Advisors who recently left a brokerage may elect to set up a "Hybrid" firm that accepts trailing commissions from their prior practice or new commissions generated on their brokerage platform, while using their RIA platform for converted brokerage clients or new clients who desire a fee based compensation strategy. LPL, a public company, is one of the largest sponsors of Hybrid Firms offering both an RIA and a Broker-Dealer platforms. Although these practices are legal, they are rife with conflicts and constant supervision to ensure compliance with the law.

Provider Type: RIAs that accept commissions

Familiar Names: Waldron Co. (insurance) LPL (Hybrid)

How To Identify: Website disclaimer and SEC Form ADV

How Compensated: Multiple ways from fees to wrap accounts* to commissions. (*A wrap account is used by a brokerage firm to manage an investor's portfolio for an annual fee. This fee supposedly covers all expenses for the account, however brokers sometimes buy A&B share funds that carry commissions in these accounts) .

Commissions: YES

Commission Type: Annuities **Sales charge:** up front fees of 4-8+%

Commission Type Life Insurance **Rate Range +/-**110% of 1st Yr Premiums

Commission Type Brokerage Commissions **Rate Range** *varies*

Disclosure of Conflicts of Interest: Required on the RIA side only

Act as Client's Fiduciary: Required as RIA, but not for Stock Brokerage or Insurance businesses

Trust Officers

The officers of a bank's Trust Company subsidiaries act as a client fiduciary. However recent sales practices and certain older trust provisions have called into question the Trust Company's independence and fiduciary status. Trust Companies are separate entities from commercial banks, law firms and bank holding companies that may own them. This separation is for the benefit of the client whose assets cannot be intermingled with the owner's assets and protects the client's assets from a bankruptcy of the Trust Company's owner.

A number of large Banks have directed their Trust Companies to purchase Bank sponsored mutual funds representing a clear conflict of interest. Many have stopped this practice as regulators began to fine Banks for this practice. Additionally every year many Beneficiaries of Trusts that are dissatisfied with their trust company's services are forced to sue the trust company in order to move the trust to a better institution. Because many old trusts do not have provisions that envision the replacement of a trustee, the current bank vigorously fights suits in court which appears to many to be a clear conflict of interest.

Provider Type: Trust Officers

Familiar Names: JPM Morgan, BNY Mellon, Wells Fargo

How To Identify: Usually Trust Companies are subsidiaries of a Bank

How Compensated: Percentage of Assets Under Management

Commissions: Depends on whether The Trust Co clears trades through Bank's broker dealer subsidiary or if it places client funds in bank-sponsored mutual funds.

Commission Type: Brokerage for trades **Rate Range** Varies

Commission Type Bank Fund management fees **Rate Range** 0.5%-1%

Commission Type N/A Rate Range N/A%

Disclosure of Conflicts of Interest: Not necessarily . Conflicts like the cross-selling of Loans, Credit Cards or deposit accounts arise frequently

Act as Client's Fiduciary: Yes

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Bank-Based Stock Brokers, Bank Salespeople and Private Bankers.

Most Banks deploy many sales channels to attract investors. We previously discussed their trust subsidiaries, but banks also deploy brokers and other registered representatives focused on the mass-affluent investor through their branch network or through standalone entities resulting from the various shot-gun marriages occurring during the 2018 Financial crisis. Banks also deploy investment advisors and private bankers focused on wealthy individuals. Finally a number of Large Banks provide Family Offices for their ultra-wealthy clients.

None of these individuals are required to be Fiduciaries. The products sold to these clients only have to meet a lower Suitability Standard (the investment only has to be appropriate, but does not have to be the best alternative as required under the Fiduciary standard). Many conflicts exist, but are not required to be disclosed. Furthermore many of these individuals are incented to sell products based upon the commissions they receive or the sales contests sponsored by their employers.

Since 2008 Banks have been fined $185,200,000,000.00 (One Hundred-Eight-Five Billion, Two Hundred Million Dollars Dollars)* and in 2017 alone 497 Bankers and Brokers were banned for life and another 733 were suspended for misdeeds.**
(*Business Insider 8-16-17; **FINRA 2018.)

Provider Type: Non Trust Bank employees

Familiar Names: JP Morgan, PNC, Citi, BNY-Mellon, M&T Wells Fargo

How To Identify: Branches FDIC legend often see a disclaimer "**Not FDIC Insured • Not Bank Guaranteed • Not A Deposit Not Insured By Any Federal Government Agency • May Lose Value"**

How Compensated: Commission, Incentive and Salary

Commissions: 0.1% -10%

Commission Type Wrap Fees **Rate Range** +/- 1.0%

Commission Type Brokerage **Rate Range** varies by institution

Commission Type Annuities & Structured Products **Rate Range** 4-8%

Commission Type Investment Management **Rate Range** 0.30%-1.50%

Disclosure of Conflicts of Interest: Banks Not required

Act as Client's Fiduciary: Not Required

Stock Brokers

The old line Brokerages succumbed to the 2008 financial crisis. They either failed (e.g. Lehman Brothers) were forced into the arms of banks (e.g. Merrill Lynch) or became Bank Holding Companies in order to receive bail-out funds by the Federal Reserve (Goldman Sachs, Morgan Stanley, etc.).

Despite these conversions and the concerted attempts of the Department of Labor, OCC and SEC, Brokerages have fought to cling to lucrative old commission structures and lax regulations. On one hand they have fought becoming fiduciaries- preferring to meet a the lesser standard of suitability , but on the other hand they have tried to adopt and use the Fiduciary term “Advisor” which makes them appear as though they are Fiduciaries and not Commissioned Sales Reps.

Brokerages have developed multiple categories of fees including wrap fees, commissions, sales loads (upfront fees) trails (ongoing) and also try to sell high cost in-house products like mutual funds and structured notes. Customers of Stock Brokers can regularly expect to pay cumulative annual fees of 1.5%-2.5%.

Since 2008 Brokerages have been fined $38,600,000,000.00 (Thirty-eight Billion, Six Hundred Million Dollars)* and in 2017 alone 497 Bankers and Brokers were banned for life and another 733 were suspended for misdeeds.* (*Business Insider 8-16-17; **FINRA 2018.)

Provider Type: Stock Broker “Wire House”

Familiar Names: Goldman Sachs, Merrill Lynch, Morgan Stanley, UBS

How To Identify: website will indicate ” a registered broker-dealer and Member Securities Investor Protection Corporation (SIPC) or “Securities offered through X, Member FINRA/SIPC”

How Compensated: Commission, Wrap Fee

Commissions : 0.10%-10%+

Commission Type Wrap Fees **Rate Range** +/-1.25%

Commission Type: Sales, Loads, Trails (12b-1) **Rate** Range Sales $3-$300 per trade, Loads 0-2% on funds, Trails 0.10-0.25%

Commission Type Annuities and Structured Notes Rate Range 4-8%

Disclosure of Conflicts of Interest: No

Act as Client’s Fiduciary: No

Insurance Brokers/Agents

Insurance Brokers (e.g. Marsh Brokers) represent multiple companies whereas Agents (e.g Allstate Agents) represent single companies. Unlike the rest of the financial services industry which is governed by semi-uniform national agencies or Self-Regulatory Organizations like FINRA (Brokerages), insurance companies are regulated on a state-by-state basis by State Insurance Commissioners.

Life Insurance agents/brokers are the most likely type of insurance sales people to attempt to cross-sell investments in insurance wrappers (e.g. Fixed and Variable Annuities) although personal lines (home and auto) salespeople have increasingly been selling annuities. Furthermore, many of the large insurance companies like Ameriprise have also added broker/dealer subsidiaries so that they can cross sell securities to their insurance clients.

If an insurance sales person offers securities for sale, as opposed to insurance products you can view their practices and fees as stock brokers. This page pertains to their insurance annuities sales.

Provider Type: Insurance Broker and Agents

Familiar Names: TIAA, MetLife, Lincoln Financial AXA, AIG, Ameriprise

How To Identify: They use client testimonials which are prohibited in the securities industry. The legend “annuities are sold through Prospectus”

How Compensated: Commissions

Commissions 4--10% Up front $100 contributed could =$90 invested and $10 paid in commissions

Commission Type Annuities **Rate Range** 4-10%

Commission Type Life Insurance **Rate Range** **+/-**110% of 1st Yr. Premiums

Disclosure of Conflicts of Interest No. Note Some Brokers and agents go to great lengths to obscure the fact that they are selling annuities and instead call them “investment vehicles”, or simply “vehicles”

Act as Client’s Fiduciary: No

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Mutual Fund and Insurance Companies With Embedded Broker Dealers

Large mutual fund complexes like Fidelity and Vanguard established broker-dealer subsidiaries that allow them to go direct to clients. Vanguard and Fidelity principally interacts with their clients using 1-800 phone banks and computer chat session, but Fidelity also has sales centers located in wealthy communities. These companies are generally no-frills, discount brokers who provide basic services in exchange for low fees.

Direct to consumer insurance companies like Northwestern and Mass Mutual tend to lead with life and other insurance products and then quickly try to cross-sell annuities and in-house mutual funds. With the exception of their initial focus on leading with insurance products and in-house funds, they tend to act like traditional brokers.

Provider Type: Insurance Cos & Mutual Fund Complexes

Familiar Names: Northwestern Mutual, Mass Mutual, Fidelity, Vanguard

How To Identify: Virtually all will say they are FINRA Members as they use a broker/dealer model

How Compensated: Commissions

Commissions: Yes Trading Commissions and sometimes Wrap Fees,

Commission Type: Sales, Loads, Trails (12b-1) **Rate Range:** Sales $3-$300 per trade, Loads 2-5% on funds, Trails 0.10-0.25% Note: many funds offered by the fund complexes do not have loads and trails and are inexpensive.

Commission Type Life Insurance **Rate Range** +/-110% of 1st Yr. Premiums

Disclosure of Conflicts of Interest: Not required

Act as Client's Fiduciary: No

CPAs & Attorneys

Attorneys have held trust powers for their clients since 1800, a few established subsidiary RIAs or subsidiary Broker Dealers to address their clients investment concerns. At present there are only a small number of law firms engaged in the investment management business and their practices act as either traditional broker dealers or RIAs.

CPAs have been allowed to collect commissions since a 1990 Federal Trade Commission order forced the American Institute of Certified Public Accountants (AICPA) to lift its ban on CPAs accepting commissions. During the 1990s many CPAs gravitated to this new line of revenue and many Broker dealers developed dual-employee (individual is simultaneously an employee of the CPA practice and the Broker dealer) brokerage models to help CPAs to enter industry. Accountants began to experience the downside of the combination: lost customers due to performance issues, conflicts of interest etc. Now only a relatively small number of CPA firms manage investments. The remaining CPAs tend to be organized under the broker dealer model.

Provider Type: CPA & Attorneys

Familiar Names: Tend to be local firms

How To Identify: Self identified

How Compensated: Some are organized as Broker Dealers and are Commissioned. some are RIAs

Commissions: for Broker Dealers (RIAs are fee based)

Commission Type Wrap Fees **Rate Range** +/-1%

Commission Type: Sales, Loads, Trails (12b-1) **Rate** Range Sales $3-$300 per trade, Loads 0-2% on funds, Trails 0.10-0.25%

Commission Type Annuities and Structured Notes Rate Range 4-8%

Disclosure of Conflicts of Interest: No for Brokers; Yes for RIAs

Act as Client’s Fiduciary No for Brokers; Yes for RIAs

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Financial & Wealth Planners

Most RIAs, Brokers, Insurance Companies and Banks employ financial planners as part of their wealth management offering. However there are firms that started out purely as fee-for-service wealth planners. They tended to expand their practices in two ways to annuitize cashflow in what was considered a once-and-done industry. One method was to become "Life Coaches" and provide continual advice as a client progresses over their career. The second method that many of these firms gravitated toward was the more stable investment management model.

Most planners that entered investment management business utilized the rregistered Investment Advisor (RIA) model described to the right.

Provider Type: Planners That Became Fee Only RIAs

Familiar Names: Tend to be small, local firms

How To Identify: Website and SEC Form ADV

How Compensated: Single Fee based upon a Percentage of Assets under Management or a flat fee.

Commissions: No Commissions Accepted

Commission Type N/A **Rate Range %** N/A

Commission Type N/A **Rate Range %** N/A

Commission Type N/A **Rate Range %** N/A

Disclosure of Conflicts of Interest: Required

Act as Client's Fiduciary: Required

IIIA. SECURITIES & PRODUCTS WITH NO EMBEDDED COMMISSIONS

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Stocks

Security: Publicly Traded Stocks

Description: Equity Interest in a Publicly traded Company

Variations*: Common Stock, Preferred Stock, Convertible (Bond>Stock) Series A Common and Series B Common

Costs: Brokers and Custodians charge a transaction fee. Additionally there is a bid/ask spread that impacts the price.

Taxation: Stock dividends are taxed as ordinary income. Stocks sold under one year are taxed as ordinary Income and over one year at the capital gains rate.

Risks*: Stocks can loose 100% of their value. A single stock portfolio has concentration risks

Pros: Stocks are the building blocks of all equity based financial products

Cons: Individual stock prices can be volatile and may not perform as expected

Bonds

Security: Bonds

Description: Debt Securities issued by Governments Agencies, Municipalities and Corporations

Variations*: Hundreds - from Treasury Bonds, Agency Bonds, Muni Bonds Convertible Bonds – Investment and non investment grade bonds

Costs: Bonds can be acquired directly, but are usually acquired in the secondary market where they are purchased at a premium or discount.

Taxation: Interest payments (coupons)are taxable at ordinary rates. After a year if one sells a bond at a profit the gain is taxed at the capital gains rate. Muni bonds coupons can be exempt from state and federal taxes

Risks*: If interest rates increase bond prices decrease and vice-versa. Also credit ratings can decline diminishing the value of a bond or the issuer can become Bankrupt

Pros: Bonds are stable and can provide ballast to an equity portfolio

Cons: Limited upside potential and can loose 100% of their value

*The listed risks and variations are designed to be indicative, not exhaustive. The information provided is for educational purposes only and should not be construed as investment advice.

Institutional Class Mutual Funds

Security: Institutional Class Mutual Funds

Description: Lowest Fee Funds available to institutional investors with $250,000+ to invest in a single fund. Can be any type of fund (e.g. Equity, Fixed Income, Real Estate, etc.).

Variations*: Funds offer several classes of shares, Due to large minimums, Institutional Class shares are the least expensive.

Costs: Institutional class funds generally have no up-front sales fees (AKA: Loads),no 12b-1 (marketing) fees and lower expense ratios

Taxation: No special taxation. Dividends taxed as ordinary income. Gains taxed at the Capital Gains tax rate

Risks*: Same risks as the mutual fund's (MF)other share classes

Pros: Least expensive, most advantageous mutual fund for investor

Cons: Requires large investments

Exchange Traded Funds

Security: Exchange traded Funds ("ETF")

Description: An ETF trades all day like a stock (MF valued 1 time per day)

Variations*:Exchange Traded: 1) open ended, 2) Unit Investment Trusts and 3) Grantor Trusts

Costs: ETFs have no Loads, their expenses ratios are a fraction of a mutual fund's (0.10%-0.7% in many cases). Can have lower trading costs than MFs

Taxation: Most ETFs are passive with little trading and realize fewer capital gains and losses. Also capital gain taxes and losses are only realized on an ETF when the entire investment is sold whereas a mutual fund incurs capital taxes/losses every time the assets in the fund are sold.

Risks*: Same as all funds, plus if a new ETF sponsor company fails there might be an unplanned liquidation together with adverse tax consequences

Pros: More Liquid, More Tax Efficient and comparatively less expensive than MF

Cons: Small ETFs trade thinly increasing their bid/ask spread

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Closed Ended Funds

Security: Closed End Funds (CEF”) (limited number of shares sold)

Description: a closed-end fund is a pooled investment fund with a portfolio manager; raises a fixed amount of capital through an initial public offering (IPO). Share price is based on demand not Net Asset Value (NAV) like open ended mutual funds.

Variations*: Some funds invest in stocks, others in bonds, and some in very specific things like investment themes.

Cost: CEFs generally have a 4-5% IPO fee, the discount widen or narrow in the secondary market. CEFs generally have high fees.

Taxation: Complex: Distributions arise from coupons, dividends, capital gains and returns of capital

Risks*: Unlike mutual funds which trade at NAV they can trade at a premium or discount based on investor sentiment

Pros: Can potentially identify CEFs that trade below NAV and might trade higher

Cons: High costs, complex taxes, valuations not in line with NAV

Structured Notes

Product: Structured Note

Description: A hybrid Security with a debt and a Derivative component. Futures contracts, forward contracts, options Swaps and Warrants are common derivatives. A futures contract is a derivative because its value is affected by the performance of the underlying contract**.**

Variations*: There are many variations including those linked to derivatives of equity, foreign exchange, interest rates and credit, Most use the coupon of a CD or Bond to purchase the derivative.

Cost: Opaque cost structure, high fees

Taxation: if designed for individual can create tax-efficient access to certain asset classes, but opposite is also true.

Risks*: These securities are illiquid, hard to value, and are frequently tied to the fortunes of the underwriter.

Pros: Access to products that retail investors otherwise have difficulty accessing

Cons: Complex, illiquid, poor risk/return metrics suspect credit quality

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IIIB. SECURITIES & PRODUCTS WITH EMBEDDED COMMISSIONS

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A & B Class Mutual Funds

Security: Mutual Fund with Class A, B or C shares

Description: Brokers sell these fund classes so that they can be paid commissions.

Cost: A shares (upfront load, lower ongoing sales charge 12b-1), B shares (no load, high ongoing sales charge 12b-1 converts to lower sales charge after a number of years) C shares (back-end sales charge if fund sold in first year moderate sales charge 12b-1)
Variations*:

Taxation: No special taxation. Dividends taxed as ordinary income. Gains taxed at the Capital Gains tax rate

Risks*: Same risks as the mutual fund's (MF)other share classes

Pros: Brokers use these costly classes of funds to improve diversification

Cons: Brokers or their brokerages frequently collect all of these fees and charge a wrap fee in addition.

Annuities

Product: Annuities

Description: An investment in an insurance wrapper. Usually has a nominal guaranteed return and hard to achieve upside returns

Variations*: Many but most are Fixed and Variable Annuities

Cost: Very high priced loads from 4-10%, Embedded fees are hard to identify but generally high

Taxation: While inside the investment wrapper taxes are deferred and then withdrawals in amounts over the initial investment receive ordinary income tax treatment.

Risks*: Very complex and opaque agreements with upsides that are frequently much lower than the investor is lead to believe:

Pros: some tax deferral potential.

Cons: high loads and ongoing fees, low returns compared to expectations

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