



HERGES
CAPITAL MANAGEMENT

Financial Advisors and Hidden Fees

August 2019

Dr. Udo Herges
CEO & Founder Herges Capital Management

Vita Udo Herges



Born and raised in Germany 






Education: **MSc PhD** at Brunel University, London, U.K. 



1996 German U25 **Correspondence Chess Champion** 



Work: Various investment banking positions at

-  Commerzbank 4 years
-  SEB 4 years
-  Salomon Brothers/Citigroup 7 years



2011 **Vice President** at Commerzbank 



2013 **Founder and CEO** of Herges Capital 



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Financial Advisors

Be aware from whom you receive advice

Two Types of Financial Advisors

Code of Conduct	Independent Investment Advisor	Broker	Dually Registered
Decision Standard	Fiduciary Must act in the <u>best interest</u> of his or her client. Put their clients' interests <u>above</u> their own.	Suitability Making recommendations that appear to be <u>suitable</u> for clients. <u>Consistent</u> with the best interest of the client.	CONFLICTED
Loyalty	The client only!	Broker-Dealer / Employer	CONFLICTED
Regulator	Securities and Exchange Commission (SEC) or local state securities regulator	Financial Industry Authority (FINRA)	FINRA, SEC or local state

Only 8% of all financial advisors are **INDEPENDENT INVESTMENT ADVISORS**.

Suitability: As long as an investment recommendation meets a client's defined need and objective, it is deemed appropriate.

Fiduciary: Legally obligated to put client's best interests first, rather than simply finding "suitable" investments. Therefore eliminating lucrative commission structures that govern the brokerage industry.



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Investment Transparency Act Jan 2019 **by New York State Senate**

Proposed bill mandating greater levels of disclosure by non-fiduciaries that provide investment advice:

“I am not a fiduciary. Therefore, I am not required to act in your best interests, and am allowed to recommend investments that may earn higher fees for me or my firm, even if those investments may not have the best combination of fees, risks, and expected returns for you.”



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Hidden Fees

Be aware of the total investment expenses

Cost of Investment Breakdown

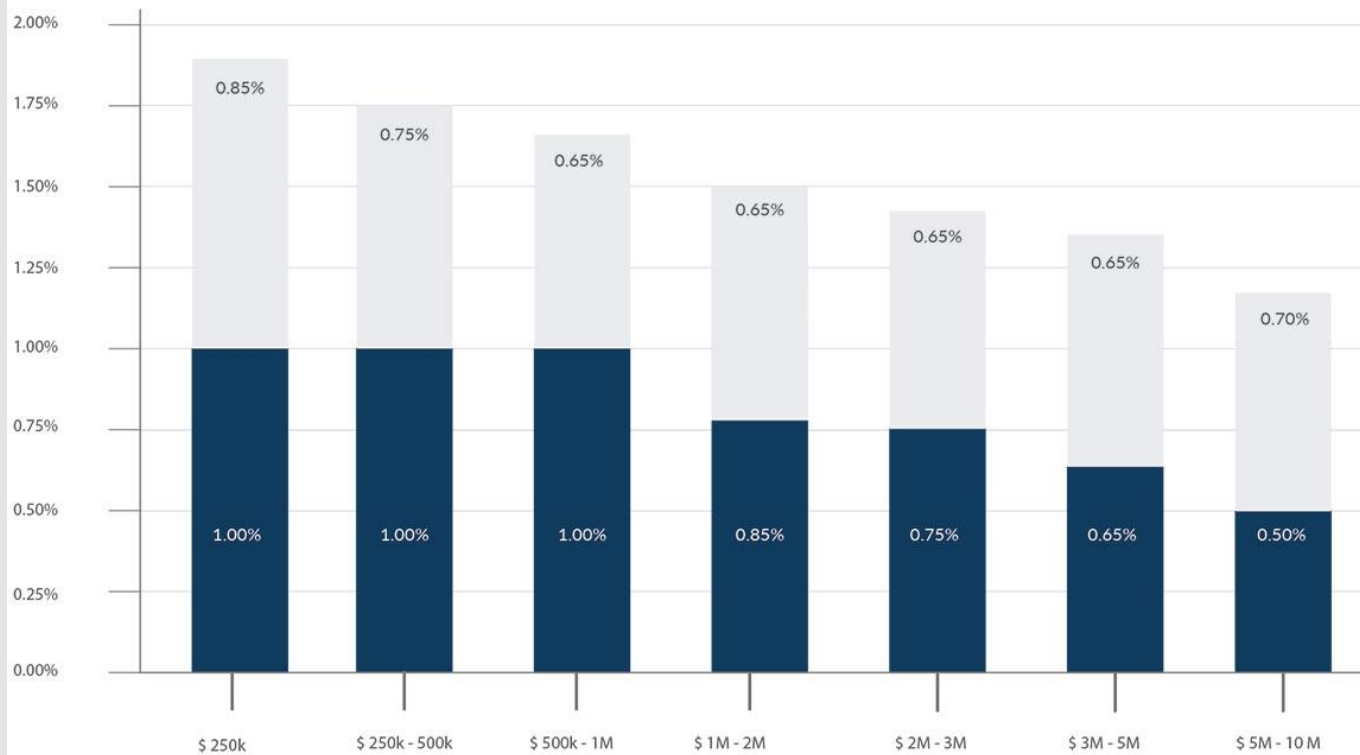
Financial Advisor Fees				0.25% - 1.50%	
Third-Party Fund Fees (Mutual Funds, Exchange-Traded Funds)				0.0% - 2.0%	
Portfolio transaction cost	0.1% - 0.4%	+	Intra-fund transaction cost	0.4% - 1.4%	
Portfolio cash drag	0.1% - 0.3%	+	Intra-fund cash drag	0.2% - 0.8%	
Portfolio capital gain tax	0.0% - 1.0%	+	Intra-fund capital gain tax	0.5% - 1.0%	
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TOTAL				2.0% - 8.0%	

Herges Capital avoids third-party funds (**direct investing** approach) and applies **tax-loss harvesting** to bring capital gain tax down to zero.



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Average Cost of Investment



SOURCE: INSIDE INFORMATION, 2017 PLANNING PROFESSION FEE SURVEY, www.bobveres.com

TOTAL COST BREAKDOWN



AVERAGE ADVISOR

1.85% < \$250K
1.75% < \$500K
1.65% < \$1M

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1.4 + 0.1/0.3%
1.0 + 0.2/0.4%
0.8 + 0.2/0.4%

PLUS TAX EFFICIENCY



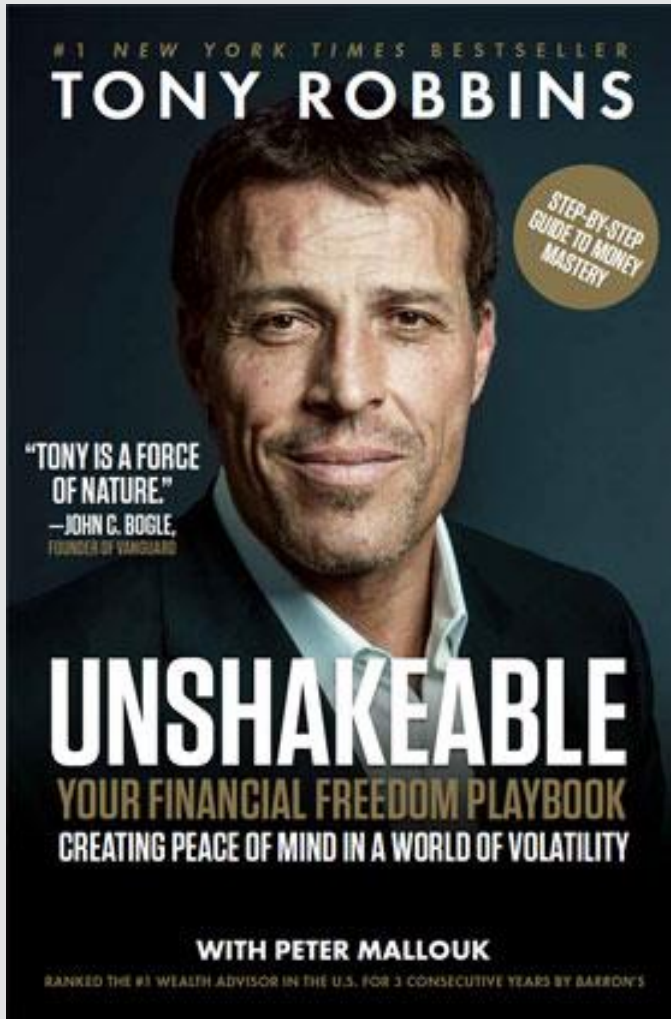
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Summary

Re-read at home

Book Recommendation



- Chapter 3
‘Hidden Fees and Half-Truths’
- Chapter 5
‘Who can you really trust?’



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Take-Aways

- Know from whom you receive financial advice. Work with an independent **INVESTMENT ADVISOR**
- **TOTAL INVESTMENT COST** counts, not advisor fee only.
- Do not put all your eggs in one basket. **DIVERSIFY INVESTMENTS!**
- Get ideas and personalized advice from **HERGES CAPITAL MANAGEMENT**

Visit www.hergescapital.com

