THE (TRUE) CO$T OF INVESTING

Why Fee Transparency is Critical to Determining Underlying Investment Value

CARSON PARTNERS

If you own a smart phone, you know it doesn't take a genius to figure out that the advertised price and the actual price you pay for your monthly service plan can be drastically different. Let's say you purchased a data plan advertised at $30 a month. It's not unusual to pay upwards of 20% to 30% or more on a monthly basis once you factor in the activation fee, monthly taxes, insurance premiums, government imposed fees and other miscellaneous administrative costs. As a result, what felt like a good deal when you purchased your plan can feel very different once you receive your first monthly bill. And if you're wondering why the enthusiastic salesperson who sold you the plan didn't walk you through those charges line-by-line, you may already know the answer. ***Why let fee transparency spoil a good sales pitch?***

Unfortunately, a good financial sales pitch can also leave many investors wondering what they're paying for as well. While investment fees and expenses are required to be disclosed through investment prospectuses, layers of complexity, financial jargon and "hidden" fees can make it difficult for investors to understand the true underlying investment costs and the impact expenses have on their investment returns.

This guide was developed to assist you in making more confident investment decisions by helping you to better understand:

1. **What you're paying for and why,**
2. **The correlation between investment value, performance and expenses, and**
3. **Questions to ask your advisor or financial services provider before investing.**

Importance of Fee Transparency

Fee transparency is critical to the success of your investment strategy because it enables you to understand and evaluate the relationship between the fees you pay and the value you derive from an investment. For example, higher cost mutual funds must perform better than low-cost funds to generate the same returns. The Securities and Exchange Commission (SEC) provides the following example: if you invested $10,000 in a fund that produced a 10% annual return before expenses and had annual operating expenses of 1.5%, after 20 years you would have roughly $49,725. However, if the fund had expenses of only 0.5%, you would end up with approximately $60,858.[1]

While all investments have fees associated with them—from portfolio management and operating fees, to account maintenance, commissions and sales charges—choosing an investment based solely on its expense ratio can prove just as costly as ignoring the impact of fees altogether. For example, a relatively low-cost fund with a high standard deviation (indicating that a fund's historical returns have deviated significantly from expected returns over time) would not be appropriate for a risk-averse investor seeking a higher degree of asset protection with less exposure to market volatility.

Similarly, index funds, which many find attractive due to their low cost structure, can prove detrimental to achieving investment goals in periods where the market is sideways or range-bound, producing relatively flat returns, or during periods of negative returns. That's because passive, or index-style investments, buy and hold the stocks or bonds in a market index such as the Standard & Poor's 500 or the Dow Jones Industrial Average.* A vast array of indexed funds track the broad market as well as narrower sectors such as small-company stocks, foreign stocks and bonds, and stocks in specific industries. In a buy-and-hold index strategy, investors experience the full upside potential in a rising market, but they also experience the full downside when the market or sector the portfolio is indexed to drops. Actively managed investment portfolios, on the other hand, benefit from extensive research and analysis required to make strategic and tactical changes in an attempt to manage risk during periods of both positive and negative market activity. That's one of many reasons why investors should not judge their investment success by expenses alone, but should continually evaluate their progress towards achieving their personal financial goals.

A more broadly diversified portfolio, representing multiple asset classes and market sectors, can help position investors to benefit from gains in asset classes or sectors producing positive returns while helping to cushion declines experienced in other asset classes or sectors over time.

Investors cannot invest directly in an index. Indices have no fees. The performance numbers are pure price returns, not inclusive of dividends, fees or other expenses. Past performance is not indicative of future results. All investments involve risk and the potential for investment losses.

*The S&P 500 Index is a diverse index that includes 500 American companies that represent over 70% of the total market capitalization of the U.S. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

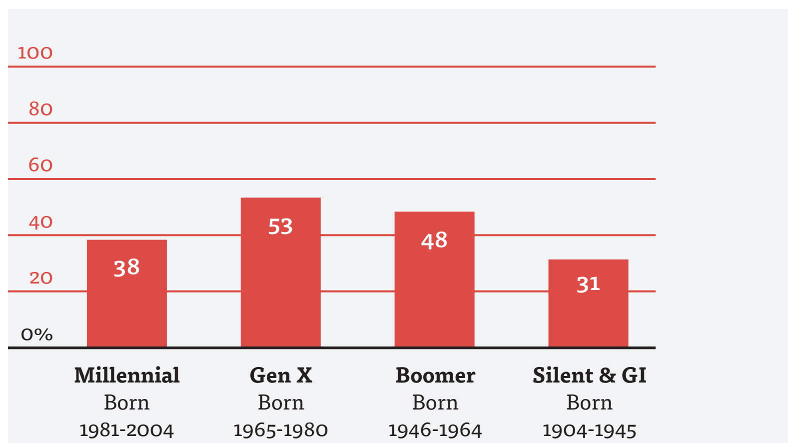
Making Sense Of Individual Investment Fees & Expenses

MUTUAL FUNDS

According to the Investment Company Institute (ICI), an estimated 100 million individual investors owned mutual funds in 2017, representing approximately 56.2 million U.S. households.[2] Among the reasons mutual funds are so popular is their prevalence in company sponsored retirement plans like 401(k)s, and their relatively low minimum investment requirements when purchased outside of employer retirement plans. As a result, mutual funds have long been touted as a way for individual investors to access professional investment management and broad portfolio diversification. Yet, determining how much you are actually paying for a given fund, and whether an investment is truly cost-effective can be difficult since fees are seldom communicated in a manner that's easy for investors to understand.

Incidence of Mutual Fund Ownership Is Greatest Among 35 to 64-Year-Olds

Source: 2017: http://www.icifactbook.org/ch7/18_fb_ch7



Like any business, mutual funds have operating expenses, some more significant than others. These expenses make up the fund's expense ratio. Below is list of common mutual fund fees and expenses that can add up quickly over time.

- **Front-end sales load (sales commission)**
- **Back-end load (contingent deferred sales charge)**

- Redemption Fees
- Exchange Fees
- Account Maintenance Fees
- Purchase Fees
- Management Fees
- Distribution/12b-1 Fees
- Other Expenses

BEYOND EXPENSE RATIOS

Most people assume that all costs associated with operating a mutual fund are captured in the fund's expense ratio—but that's often just the beginning. Other "hidden" costs, resulting from portfolio trading and turnover can be just as expensive. Fees and expenses vary by fund and fund family, so it's important to do your homework and read the fund's prospectus to understand what you'll be paying before you invest.

Average Expenses by Fund Type

Fund Type	Basis Points
Equity Funds	68
Bond Funds	61
Hybrid Funds	77
Target Date	55
Money Market Funds	13

Source: https://www.ici.org/pdf/2018_factbook.pdf (ICI: 2018 Investment Company Fact Book)

Average expenses (on an asset-weighted basis) paid by mutual fund investors are expressed in basis points: 100 basis points = 1% which translates to $100 for every $10,000 invested (exclusive of sales loads).

EXCHANGE-TRADED FUNDS (ETFS)

Exchange-traded funds (ETFs) are vehicles that seek to track various stock market indices. According to Bloomberg,[3] the average expense ratio for U.S. non-leveraged ETFs is 50 basis points. While ETFs may have been lauded as an inexpensive alternative to mutual funds, the average ETF expense ratio has increased in recent years due to new actively managed ETFs coming on the market[3], as well as specialty ETFs such as commodity funds which can have expense ratios as high as 1.5 percent. ETFs trade on an exchange all day, unlike mutual funds, whose net asset value is calculated at the end of the trading day. As a result, trading activity can result in additional costs, including wide bid-ask spreads for certain thinly traded or very low volume ETFs. These wide spreads can erode potential returns since they affect the price at which an ETF purchase or sale is made. One way investors can avoid this is to stick with liquid funds that trade often or place limit orders when buying or selling ETFs.

Determining Value for Your Bottom Line

While fees are an important factor in the investment selection process, investment expenses should never be your only consideration. Your goals and objectives, risk tolerance and investment timeframe are equally important considerations that must be carefully weighed before pursuing any investment strategy. That's where objective guidance from an independent wealth advisor can really add value. An independent advisor can:

- *Help you understand how investment fees and expenses impact your returns in a manner that is straightforward and makes sense to you.*
- *Fully disclose and explain all fees related to their services and/or specific financial products and investment strategies.*
- *Recommend investment strategies that are aligned with your personal goals and risk tolerance.*

See Value of a Fiduciary Advisor on page 8 *to* *learn more about the advantages of working with an independent financial advisor.*

"No-Load" Doesn't Necessarily Mean "Less Costly"

While "no-load" funds do not charge any type of sales load, they are permitted to charge purchase fees, redemption fees, exchange fees and account fees, which are not considered sales loads. Under industry standards, a fund is permitted to pay its annual operating expenses and still call itself "no-load," unless the combined amount of the fund's 12b-1 fees or separate shareholder service fees exceeds 0.25% of the fund's average annual net assets.

Fees and expenses will vary based on the individual fund and fund company; fees and expenses are disclosed in the fund's prospectus.

ANNUITIES

An annuity is a contract between an investor and an insurance company that requires the insurer to make payments to you, either immediately or in the future. There are three basic types of annuities: fixed, variable and indexed. Most annuities can be purchased by making either a single payment or a series of payments. Similarly, your payout (the income you receive) may be structured as one lump-sum payment or as a series of payments over time.

Annuities are long term, tax-deferred investment vehicles designed for retirement purposes and contain both an investment and insurance component. Guarantees are based on the claims paying ability of the issuer. Withdrawals made prior to age 59 are subject to 10% IRS penalty tax and surrender charges may apply. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal.

Different annuities offer various features and benefits, including death benefits, inflation-adjusted income, guaranteed minimum income benefits, etc. Many of these features are added in the form of contract riders and come at a cost.

Annuities are most popular among retired investors seeking a steady income stream throughout retirement. However, the fees and expenses imposed by annuities are numerous, making them costly to own and notoriously difficult for most investors to understand. Hefty surrender charges make them a poor investment for short-term investors as these fees can take a sizeable bite out of earnings and/or principal if the annuity is surrendered early.

Annuity Fees & Expenses

Some of the typical fees and expenses associated with annuities:

Mortality & Expense Risk Charge

This charge is equal to a certain percentage of your account value, typically about 1.25% per year. This charge pays the issuer for the insurance risk it assumes under the annuity contract. The profit from this charge is often used to pay a commission to the representative who sold you the annuity.

Administrative Fees

The issuer may charge you for record keeping and other administrative expenses. This may be a flat annual fee, or a percentage of your account value.

Underlying Sub-Account Portfolio Expenses

In addition to fees charged by the issuer, you will pay the fees and expenses for underlying sub-account portfolios.

Fees & Charges for Other Features

Additional fees typically apply for special features, such as a guaranteed minimum income benefit or long-term care insurance. Initial sales loads, fees for transferring part of your account from one investment option to another and other fees also may apply.

Penalties

If you withdraw money from an annuity before you are age 59 ½, you may have to pay a 10% tax penalty to the Internal Revenue Service on top of any taxes you owe on the income.

REAL ESTATE INVESTMENT TRUSTS (REITS)

Real Estate Investment Trusts (REITs) provide a way for individual investors to potentially diversify an investment portfolio through the inclusion of real estate without having to directly purchase properties on their own. Liquidity is an important consideration when investing in REITs. Private, non-traded REITs are considered highly illiquid investments and fees can be substantially higher than those associated with exchange-traded REITs.

Mutual funds that specialize in REITs have expense ratios that vary from less than 0.5 percent for index funds to as much as 3 percent for the priciest actively-managed options. The median real estate fund costs 1.03 percent. However, private, non-traded REITs, which often impose extra fees on individual investors, can push total annual expenses into the 7% range.[4]

Since REITs rely on borrowed money to make acquisitions, when interest rates go up, so do the borrowing costs of REITs. REITs that use borrowed capital, and mortgage REITs, which invest primarily in real estate debt, are typically highly leveraged, making them more risky. When interest rates go up dramatically, the mortgage-backed securities that the REIT owns can plummet in value as the REIT's borrowing costs rise, which can lead to dividend cuts and even bankruptcy for the REIT.

Equity REITs, which own properties, tend to be less rate-sensitive. However, some equity REITs have significant debt as well. In certain cases, equity REITs have carried more debt than their entire market capitalization, which can result in a downgrade to "junk" status.

HEDGE FUNDS

Hedge funds are minimally regulated private partnerships. They derive their name from their objective to hedge the markets while seeking to make money regardless of whether the markets climb higher or decline. To do so, fund managers "hedge" positions by going long or short stocks (shorting is a method that seeks to profit when a stock price drops). Instead of charging an expense ratio only, hedge funds charge both an expense ratio and a performance fee. The conventional wisdom is that hedge funds charge "two and 20"—2 percent of all assets and 20 percent of any gains. But data from Hedge Fund Research show that average fees are lower than that—and falling. The average hedge fund management fee in the second quarter was 1.51 percent, down 0.07 point from five years ago. Incentive fees have also fallen, with the average fund now taking 17.8 percent of all gains, not 20 percent.[5]

The Alternative Investment Management Association (AIMA) categorizes the three levels of fees and expenses paid by hedge fund investors as follows:

1. **Investment Advisory Fees – paid to the investment manager for its investment management services**
2. **Fund Expenses – paid at the fund level to service providers, or for other costs associated with maintaining the fund entity**
3. **Indirect Costs – less transparent costs that can take many forms, but the primary drivers are trading commissions and prime brokerage-related costs**

Similar to mutual funds, indirect trading costs and commissions can add up quickly. Investors generally have little control over costs related to day-to-day investment activities, but hedge fund managers do have some influence over them. It's important for investors to understand the manager's processes and procedures for actively controlling these costs. In certain cases, hedge funds have come under criticism for indirect costs that pose potential conflicts of interest, including travel and entertainment expenses and private jets for the personal and business use of hedge fund managers.

Weighing Your Options

Today's investors are afforded more opportunities than ever before with over 8,000 mutual funds,5 hundreds of variable annuity products, thousands of stocks, bonds, exchange traded funds, real estate investment trusts and more. The sheer number of choices and product distribution channels—banks, brokerage firms, independent financial advisors, online advice tools, etc.—can be overwhelming. So where do you begin and how do get the help you need?

There are many options available to investors from do-it-yourself platforms to large brokerage firms, and independent financial planning and investment advisory firms. Determining the best approach for you depends on many factors, including your:

- **Confidence and comfort level with making financial and investment decisions**
- **Understanding of individual investments and the inner workings of the financial markets**
- **Willingness to spend the time required to research and monitor individual investments and financial market activity**
- **Your personal perception of value for cost**

See **Weighing Your Options** chart on pages 12-14 for a full comparison of products discussed.

ROBO-ADVISOR SOLUTIONS

Many financial websites and financial institutions, including banks, brokerage firms and mutual fund companies offer online, do-it-yourself financial platforms, often referred to as robo-advisor solutions. Cost structures are often tiered based on the services you use or subscribe to, and trading costs may vary greatly from several dollars per transaction to several hundred dollars in trade execution fees and commissions. Other costs, like account servicing and maintenance fees may also apply. Some platforms offer access to advisors while others only offer self-help through online education and investment research tools.

It's important to understand that any subscription, advice, account and trade-related fees are in addition to the underlying fees associated with the investments you own. For example, if you purchase shares of a mutual fund, you will incur fund-related expenses in addition to any account maintenance, trading fees or commissions.

BROKERAGE FIRMS

At one time, brokerage firms were virtually the only option for non-institutional investors wishing to participate in the financial markets, buying and selling shares of company stocks, bonds and other financial instruments. While investors are provided a broader choice in accessing the markets today, many investors choose to work with brokerage representatives ("reps") affiliated with large, well-known firms. However, it's important to be aware of the factors that may create conflicts of interest between many brokerage firms and the clients they serve, including:

- **Suitability vs. fiduciary standards**
- **Commissions and revenue sharing arrangements**
- **Proprietary products**
- **Sales quotas and incentives**

Suitability standards require advisors to capture some very basic facts about their clients and their investment objectives.

COMMISSIONS

Brokerage firm representatives receive some of their compensation from commissions paid by clients when purchasing or selling investment products. The higher and more frequent the commissions, the more the representative may earn.

PROPRIETARY PRODUCTS

It's common for standalone, bank, and insurance-affiliated brokerage firms to offer proprietary products—financial instruments that are developed, managed, packaged and distributed in-house. Many brokerage firms assign sales quotas to specific products, requiring financial advisors to produce sales in the product or product line at or above an established revenue goal on a monthly or quarterly basis. In addition, financial advisors may receive bonuses, a higher payout, or other incentives for exceeding minimum requirements or sales goals. Even when sales quotas are not established for a specific proprietary product, brokers are typically incentivized through higher commission payouts when recommending a proprietary product over a non-proprietary solution. Again, this makes it difficult for an investor to determine if the proprietary investment was the right solution for their needs vs. their broker's wallet.

Uncovering "hidden" Costs

While it's important to consider a fund's expense ratio when making an investment decision, "hidden fees" can have an even greater impact.

Many people are surprised to learn that unreported trading and transaction costs can make a fund two or three times as costly as advertised. Costs related to the buying and selling of securities are not required to be reflected in a fund's expense ratio because they are simply too complex to estimate and calculate. These may include brokerage commissions, bid-ask spreads, opportunity costs and market-impact costs.

A study published in the Financial Analysts Journal reports that investors pay an average of 1.44% per year in trading costs alone. In many cases, that's more than investors pay in management and operational fees, making the combined total average cost of owning a mutual fund almost 2.81% on an annual basis. And certain types of funds can be even more expensive. Researchers found that investors in small-cap growth funds pay an average of 3.17% percent per year in trading costs.

Source: Financial Analysts Journal; Shedding Light on Invisible Costs: Trading Costs and Mutual Fund Performance, by Roger Edelen, Richard Evans, and Gregory Kadlec, 2013.

HIDDEN COSTS

Finally, a lack of disclosure required around certain hidden investment costs represents a real conflict of interest. Many hidden costs are the result of revenue sharing arrangements, others are a result of brokerage representatives directing clients toward high-cost, low-return investments rather than recommending quality investments that may be a better fit for the client's situation and objectives. These lower-return investments have hidden fees that benefit the brokerage firm at the investor's expense. In 2015, the President's Council of Economic Advisors estimated these conflicts of interest resulted in losses of about one percentage point for affected investors annually.[6] That translates to a loss of $2,500 a year for a portfolio valued at $250,000.

ADVISORY SERVICES

While brokerage relationships are transaction-based, advisory services are provided on a fee basis. In an advisory relationship, clients pay a set fee, either a flat fee or a fee based on a percentage of the assets being managed by the advisor. All fees are disclosed through an investment advisory program agreement and fee schedule.

Firms offering advisory services vary greatly in size and scope, from very large investment banking and brokerage firms to boutique and independent wealth management firms. Many advisory firms offer several types of services, and may offer custom portfolio management, model portfolios, discretionary asset management services and more. Annual costs depend on the number and complexity of the services provided.

BROKERAGE VS. ADVISORY FEES

Due to the number of variables involved, it can be difficult to accurately compare the cost of brokerage vs. advisory services. Expenses will vary depending upon a number of factors, including:

- **Size and value of your account**
- **Product mix**
- **Trading frequency**
- **Administrative and/or management fees associated with the products or services purchased**
- **Service preferences**

What is an RIA?

A registered investment advisor (RIA) is an independent, professional advisory firm offering personalized financial advice to clients. Independent RIAs often work with complex portfolios and address unique needs with sophisticated strategies that require a highly customized level of investment management and consultative service.

RIAs:

- *Have a fiduciary duty to act in the best interest of their clients*
- *Are registered with the Securities and Exchange Commission or state securities regulators, and are subject to the Investment Advisers Act of 1940*
- *Provide advice and services for a fee based on a percentage of client assets*
- *Can assist with tax planning, estate planning, money management and more*
- *Offer access to a wide universe of non-proprietary products and services, enabling them to tailor solutions to individual client goals*

Value Of A Fiduciary Advisor

Advisors serving investors in a fiduciary capacity are held to the industry's highest standards of transparency and integrity. They are bound to and are held accountable for acting in their clients' best interests which includes proactively disclosing and explaining all fees associated with their services and recommended investment products or strategies. But what does this really mean to you?

A fiduciary interest in your financial well-being requires your financial advisor to take the time to get to know and understand you well beyond your investment objectives and risk tolerance. He or she is obligated to develop a deep understanding of your current finances, including income sources, savings habits and past investing history. Your advisor also needs to understand your family obligations and dynamics, lifestyle preferences, legacy goals and values.

Your advisor's fiduciary obligation also serves to eliminate potential conflicts of interest, including conflicts that arise from the sale of proprietary investment products, commission-based sales, hidden fees and incentive compensation.

ASK THE RIGHT QUESTIONS

There's no replacement for doing your homework when it comes to researching and selecting individual investments, or choosing an advisor to provide the investment advice and guidance you seek. Whether you are currently working with an advisor or seeking a new advisor, the following questions can help you understand the value you receive for the fees you pay.

Questions to Ask About Advisor Compensation

- ? **How do you get paid? Do you receive commission-based or fee-based compensation?**
- ? **If commissions, how are commissions determined? Do they vary depending on the amount of assets you manage or products you recommend?**
- ? **Are you compensated in other ways outside of fees or commissions, such as revenue sharing arrangements, bonuses or other incentives?**
- ? **Do I have any choice in how I pay you?**
- ? **Can you provide a fee schedule listing all of the fees that will be charged for investments and maintenance of my account?**
- ? **Do you charge any other transaction or advisory fees? Account transfer, account inactivity, wire transfer fees, etc.**
- ? **Can I pay lower fees if I open a different type of account?**
- ? **Do I need to keep a minimum account balance to avoid certain fees?**

Questions to Ask About Specific Investments or Investment Products

- ? **What fees will I pay to purchase, hold and sell this investment?**
- ? **How do the fees and expenses of this product compare to other products that can help me meet my objectives?**
- ? **How much does the investment have to increase in value before I break even?**
- ? **Are there any additional or hidden fees, such as trading and transactions costs, that are not required to be disclosed?**

Communication is Key to Transparency

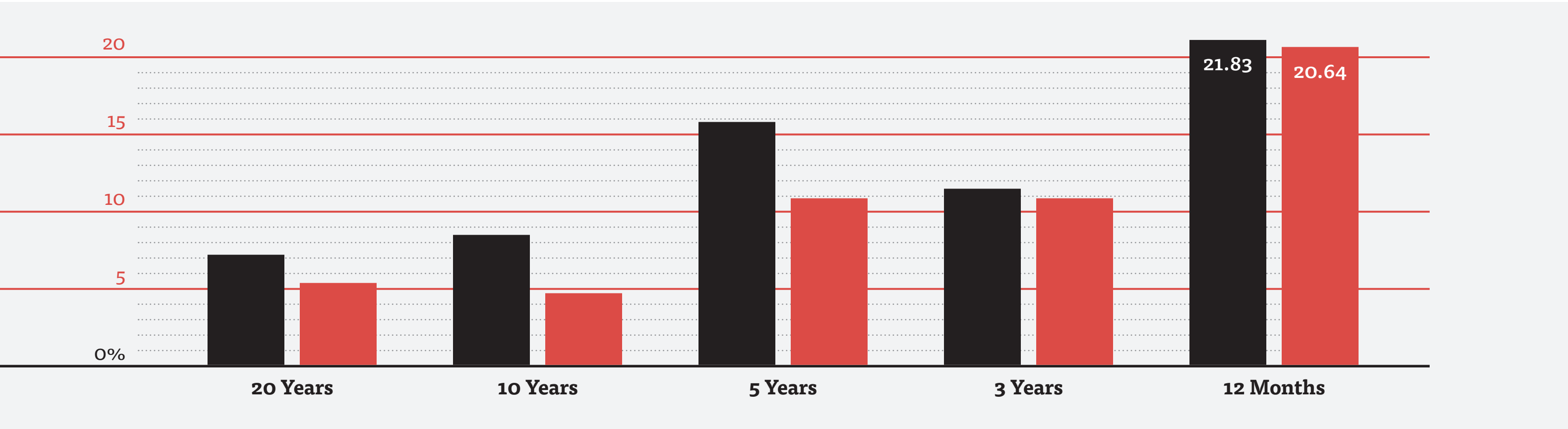
Frequent and open communication between you and your advisor is imperative to the fiduciary process. It not only helps you understand the correlation between the cost of the products and services you are paying for, but the value you receive. Your advisor should provide proactive and transparent information, including:

- *Trade notifications (each time a buy/sell is made on a strategy)*
- *Weekly financial market commentary*
- *Monthly newsletters*
- *Quarterly outlook summaries or videos*
- *Strategy fact sheets*
- *Insightful, educational information*

The Role Of Performance In Getting What You Pay For

Striking the right balance between portfolio performance and fees is critical in determining investment value. But achieving that balance can be difficult on your own. According to an independent study conducted by Dalbar, Inc., a staggering gap exists between the long-term annualized returns[7] realized by the average equity mutual fund investor compared to the returns of the S&P 500. While that gap has narrowed considerably in the past 15 years, the average investor has still only earned what they would have earned by buying and holding an S&P index fund (5.29% vs. 7.2%). Although the underperformance of 2015 was not quite as acute as other years, the study concludes that the difference between the average fund investor and the overall market was the difference between making money and losing money.

Long-Term Annualized Returns | S&P 500 (Black) vs. Average Equity Fund Investor (Red)[7]



S&P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results. Covering the period from QAIB's inception (January 1, 1984) to December 31, 2015 the study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the "average investor." Based on this behavior, the analysis calculates the "average investor return" for various periods. These results are then compared to the returns of respective indices.

According to Dalbar, the zero-sum nature of the market makes over-performance impossible for at least half the participants; after all, for every winning transaction there is a buyer/seller losing on the other end. The study further states the advantages that large, institutional market participants enjoy put the average investor in a "David vs. Goliath" scenario in which David rarely comes out on top. In addition, the study concludes that psychological factors also led investors to move into and out of investments too frequently, and that their timing in doing so is askew. Dalbar states the humbling fact has been and always will be that: the average investor cannot be above average. Investors should understand this fact and not judge the performance of their portfolio based on broad market indices, but rather based on their individual path towards a personal goal.

IMPORTANCE OF A PERSONAL FINANCIAL BENCHMARK

As the Dalbar study cited, benchmarking to an index like the S&P 500 that provides a snapshot of broad stock market performance may actually provide little relevance where your personal goals and risk tolerance are concerned. That's because an index doesn't take certain factors into account that play a significant role in determining your financial picture now and throughout your years in retirement. These include your investment timeframe, tax situation, life expectancy, lifestyle preferences, healthcare needs and the impact of inflation, among others.

That's why we employ a disciplined approach that relies on comprehensive wealth planning to develop personalized strategies aligned with each client's desired rate of return. **We work closely with you to develop your Family Index Number**, a highly personalized measurement developed by our financial planning team to help you and your Wealth Advisor define and track your progress along the path to pursuing your financial goals at every stage of your life.

Your Family Index Number represents the hypothetical rate of return your portfolio assets need to generate in order to pursue your goals and objectives while maintaining resources during your lifetime. Your personalized Family Index Number is developed by taking your unique goals, resources and circumstances into account and providing a truly relevant benchmark for gauging the performance of your portfolio. We believe a well-conceived plan that adheres to a disciplined process can be more effective for pursuing your objectives than meeting or exceeding a broad market index.

☞ ***Contact us today*** ☜

to learn how our Wealth Advisors can help you develop a personalized strategy for balancing risk, expenses and performance while placing your best interests first as we help you pursue your important financial and life goals.

[1] Mutual Fund Fees and Expenses at www.sec.gov. The example provided is hypothetical and is not indicative of any specific investment. Past performance is not indicative of future results.

[2] Source: 2017: http://www.icifactbook.org/ch7/18_fb_ch7

[3] Source: https://www.ici.org/pdf/2018_factbook.pdf (ICI: 2018 Investment Company Fact Book)

[4] https://www.forbes.com/sites/marcprosser/2017/07/19/data-proves-reits-are-better-than-buying-real-estate/#30405bded6b7 Forbes, 2017

[5] https://www.bloomberg.com/opinion/articles/2018-05-09/a-hedge-fund-fee-plan-that-only-charges-for-alpha Bloomberg, 2018

[6] WhiteHouse.gov; What You Need to Know about Retirement "Conflicts of Interest," in Three Big Sentences, February 23, 2015.

[7] -2016 (S&P: 7.68%), (Average Equity Fund Investor: 4.79%) – Dalbar 2017 QAIB https://www.advisorperspectives.com/commentaries/2017/09/25/dalbar-2017-investors-suck-at-investing-tips-for-advisors

-2017 (S&P: 7.2%), (Average Equity Fund Investor: 5.29%) – Dalbar 2018 QAIB https://content.swanglobalinvestments.com/hubfs/Third%20Party%20Documents/Dalbar%202018%20QAIB%20Report%20-%20Quantitative%20Analysis%20of%20Investor%20Behavior%20-%20Advisor%20Edition.pdf

-Information for 2018 will not be available until the release of the 2019 Dalbar QAIB

The content is developed from sources believed to be providing accurate information but CWM does not guarantee its reliability. Please consult legal or tax professionals for specific information regarding your individual situation. The opinions expressed and material provided are for general information, and should not be considered a solicitation for the purchase or sale of any security.

Different types of investments and investment strategies involve varying degrees of risk including the complete loss of the principal invested. There can be no assurance that the future performance of any specific investment or investment strategy mentioned in this material will increase in value, will be profitable or will equal any historical performance levels. Alternative investments are speculative, not suitable for all clients and intended for only experienced and sophisticated investors who are willing to bear the high risk of the investment which can include: loss of all or a substantial portion o f the investment due to speculative investment practices, lack of liquidity in that there may be no secondary market for the fund; volatility of returns; potential restrictions on transferring interests in the fund; potential lack diversification; absence of information regarding valuations and pricing; potential delays in tax reporting; less regulation and typically higher fees than other investment options such as mutual funds.

Certain alternative investments may require investors to invest additional funds via capital calls. The SEC requires investors to be accredited to invest in these more speculative alternative investments.

Investment advisory services offered through CWM, LLC, an SEC Registered Investment Advisor. Carson Partners, a division of CWM, LLC, is a nationwide partnership of advisors.

WEIGHING YOUR OPTION$ CHART ☞

	ETFs	Mutual Funds	Annuities	REITs	Hedge Funds
Investment Objective	Objectives vary by ETF and may include, growth, income, tax efficient strategies or a combination of these. Most ETFs mirror a broad market index and are sold on an exchange. Similar to mutual funds, they invest in a portfolio of securities. However, unlike mutual funds, they trade throughout the day, similar to stocks.	Objectives vary by ETF and may include, growth, income, tax efficient strategies or a combination of these. Enable investors to purchase shares in a portfolio of securities such as stocks, bonds and short-term debt instruments. Mutual fund purchase and redemption prices are determined at the end of each trading day.	Objectives vary and may include growth, preservation of capital and guaranteed income. Annuities are purchased through either a single payment or a series of payments and offer features including guaranteed income, tax-deferred income and death benefits. Features differ based on the type of annuity and the insurance company offering the annuity.	Invests in large-scale, income-producing real estate and provide opportunities for investors to earn a share of the income through commercial real estate ownership.[A]	Hedge funds are private, pooled investment vehicles with no limitations on what they can invest in, including stocks, currencies, land, real estate, derivatives and more. Many hedge funds seek to profit by using leverage, short-selling and other speculative investment practices.[B]
Sales & Management Fees	Average expense ratio is 50 basis points. [C]	Average expense ratios vary from 25 – 70 basis points, exclusive of portfolio trading costs.[C]	Charges vary, but often include surrender charges (7% in the first year, declining 1% in subsequent years; mortality and expense risk charge, typically in the range of 1.25%; administrative fees, typically in the 0.15% range; underlying fund expenses; fees for other features or benefits, including guaranteed minimum income benefit or stepped-up death benefit).[D]	Expense ratios vary from less than 0.5% for index funds to as much as 3.00% for the priciest actively managed options. The median real estate fund costs 1.03%. However, private, non-traded REITs, which often impose extra fees on individual investors, can push total annual expenses into the 7% range.[E]	The most common hedge fund fee structure is a 2% asset management fee and then a 20% cut of any gains generated, but fees may be lower or higher depending on the strategy. Relative value funds charge an average of 1.45 percent in management fees, while macro funds charge 1.62 percent. Incentive fees, which come out of investment gains, also vary, from 16.4 percent for relative value to more than 19 percent for event-driven funds.[F]

	ETFs	Mutual Funds	Annuities	REITs	Hedge Funds
Liquidity	ETFs offer a broad range of liquidity features. Many ETFs are traded throughout the day, with tens of millions of shares per day changing hands, while others are thinly traded and may only trade occasionally.	Mutual fund investors can easily redeem their shares at any time, for the current net asset value (NAV) plus any redemption fees.[G]	Taxes, sales charges and other insurance company charges may apply if money is withdrawn early.[E]	Exchange-traded REITs offer greater liquidity than private, non-traded REITs, which are considered highly illiquid investments.	Hedge funds typically limit redemption opportunities to monthly, quarterly or annually, and often impose a "lock-up" period of one year or more, during which you cannot redeem shares. They may charge redemption fees and may also have authority to suspend redemptions under certain circumstances, when investments are not able to be quickly or easily liquidated.[B]
Risks	Subject to market fluctuations.	Non-money market mutual funds are subject to market fluctuations.	While most annuities offer guaranteed income and a death benefit, the underlying value of investments may fluctuate. Fixed annuities offer a fixed rate of return, while variable annuity returns are subject to market fluctuates.[D]	Sensitive to interest rate fluctuations and other factors impacting the real estate market and individual holdings. Many REITs are highly leveraged.	Hedge funds are not subject to certain regulations designed to protect investors. Depending on the amount of assets in the hedge fund, some hedge fund managers may not be required to register or to file public reports with the SEC. Hedge funds, however, are subject to the same prohibitions against fraud as are other market participants, and their managers owe a fiduciary duty to the funds that they manage.[B]

	ETFs	Mutual Funds	Annuities	REITs	Hedge Funds
Guarantees	None	None	Annuities offer guaranteed income and death benefits.	At least 90% of net income paid out to shareholders in the form of dividend distributions.[A]	None
Fluctuation of Principal and/or Returns	Principal and earnings are subject to market fluctuations.	Principal and earnings are subject to market fluctuations.	Variable annuity earnings are subject to market fluctuations.	Principal and earning may be subject to financial and/or real estate market fluctuations and other factors.	Principal and earnings are subject to economic, financial market, currency and/or other fluctuations based on the fund's strategy and/or underlying investments.
Tax Features	Capital gains are realized when shares are sold or when the ETF trades to reflect changes in the underlying index. If shares are purchased and held within a qualified retirement plan, earnings accumulate on a tax-deferred basis until withdrawn.	Varies by fund. Mutual funds may provide taxable, tax-advantaged or tax-free earnings. If shares are purchased and held within a qualified retirement plan, earnings accumulate on a tax-deferred basis until withdrawn.	Fixed and variable annuities are tax-deferred. No taxes are paid on income and investment gains until money is withdrawn. Upon withdrawal, earnings are taxed at ordinary income tax rates rather than lower capital gains rates. In general, the benefits of tax deferral will outweigh the costs of a variable annuity only if you hold it as a long-term investment to meet retirement and other long-range goals.[D]	Dividend payments made by the REIT are taxed as ordinary income - unless they are considered to be qualified dividends, which are taxed as capital gains.[A] If purchased and held within a qualified retirement plan, earnings accumulate on a tax-deferred basis until withdrawn.	Investors report gains and losses on their individual tax returns and pay tax on items of income and gain according to the character of the income or gain reported on a K-1 form provided by the fund.[H]

[A] *REIT.com: www.reit.com*

[B] *SEC Investor Bulletin: SEC Pub. No. 139 (2/13)*

[C] *https://www.ici.org/pdf/2018_factbook.pdf ICI: 2018 Investment Company Fact Book*

[D] *Sec.gov: www.sec.gov/oiea/investor-alerts-and-bulletins/ib_variableannuities*

[E] *Forbes.com; www.forbes.com/sites/marcprosser/2017/07/19/data-proves-reits-are-better-than-buying-real-estate/#30405bded6b7; July 2017.*

[F] *Hedge Fund Research, Inc.: www.hedgefundresearch.com*

[G] *U.S. Securities and Exchange Commission, Investor.gov: www.m.investor.gov/investing-basics/investment-products/mutual-funds*

[H] *Investment Law Group: www.investmentlawgroup.com*

Distributions for non-traded REITs are not guaranteed and may exceed operating cash flow. Distributions are subject to a REIT's Board of Directors' discretion and applicable legal restrictions.

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