Thomas: In this episode, we're going to talk about fees, money market rates below the knees, and tough times for retirees.

Casey: All right, so the first question we got, it's actually more of a comment from a new client. It was: "Can you walk through how your fees work again?"

Thomas: You know, fees are a topic that I think a lot of advisors and a lot of brokers would rather not have with their clients. They just don't want to talk about it. We'll talk about it all day long though, because I think that our pricing structure is pretty good. One of the things I heard very early on in my career is clients deserve a chance to make money. When you start to put a lot of fees in front of them, you're putting them in a hole before they're even beginning. It's important to make sure that you're doing the right things for your clients, but you're also putting them in a position where they can win. Where they can make some money.

It's interesting, when we talk about fees. State Street Global Advisors did a survey recently and they came up with a couple of very interesting things. When the clients wanted to talk about fees and their fee structure, they used words like nervous, anxious, uncomfortable, but the brokers and advisors that they surveyed when they talked about this in the survey, they used words like confident, cool, and calm, meaning they thought everything was under control when they talked to their clients about fees. Clients are thinking something totally different. If you don't understand how your advisor or how your broker is being compensated, ask. It's a three-letter word, but it's the hardest thing for some people to do. Just ask the question.

There is a lot of misunderstandings on how brokers and advisors get compensated, and that's a very, very big deal. One of the things that we've heard from other clients who have come to us, and they've said, "I never understood how that person got paid. I never saw any fees coming out of the account. I didn't really understand it." And whenever they wanted to talk about it, the advisor would tend to tap dance around the subject. They never really said, "You're paying X amount of dollars." Just a sidebar for any advisors or brokers who are watching this: explain what your clients are going to pay. Explain to them, but explain it in dollar terms, and then put it in percentage terms.

We sat down with a client recently and we said, "Hey. You're going to be paying $2,500 in fees." Their eyes almost bugged out. They couldn't believe it. I don't think they were ready for something like that. Then I showed them, "Hey. On a percentage basis, this is less than a half of one percent per year." Then they calmed down and we had to peel them back off of the ceiling and they felt a little more comfortable. When you show it in dollar terms, and also show it in percentage terms, there really should be no misunderstanding about prices and how much everything costs. I think you'd want to not have that trust break in the pipeline, if you know what I'm talking about. So, advisors, if you're watching and I know you are, talk about fees. It's a big topic.

Casey, what else do you got for us?

Casey: Next question we got is: "How long will it be once the Fed starts raising interest rates?

How long will it be before we see rates on money market accounts go up?"

Thomas: Okay, that's a good question. I think the first thing is there's a Fed meeting this week, and we don't know if they're going to raise rates or not. We've been kind of waiting all year to see if the Fed was going to raise rates, because we've heard rumors of it for months and months and here we are in December.

Let me take a sidebar on that also. Tim and Brendan went to the Jet game yesterday in shorts in the middle of December. Good game against the Titans. So tonight we got a big game: Giants are going to play the Fins, so we really need that Ely come through for us.

When the Fed finally does raise rates, what's going to happen to money market rates? I know money market rates, you need a microscope to see the number. It's so small. There were times back in the 90s where money market rates were paying four percent, five percent, even higher. When are we going to go back to those days? I can tell you it's going to be a really, really long time before that happens. Here's why. Just follow me on this one. You remember in the 90s and the early 2000s when baseball players were juicing and the Cubs gave up Rafael Palmeiro because he couldn't hit home runs, and then he went to the Texas Rangers and all of a sudden he was hitting 30 home runs a year. So, what happened? All these players started juicing.

Guess what? In the 90s, your money market fun was a juicer. Now, no more juicing. The money market funds were using derivatives to help jack up their yields a little bit. They were competing to get assets from their competitors. That's the way the business goes. So they were taking a little more risk than you probably even realized. In 2008, when some of these money market funds broke the buck, the FCC put a stop to it and they said, "Look. No more juicing. Just like in baseball. No more juicing. You have to stop. And the rate of your money market account is going to be more closely tied to what a short-term Treasury Bill is yielding, what a 13-week Treasury Bill is yielding, than some kind of made up derivative that's going to help jack up your yields." You're not going to see them any more. So you want to get an idea where rates are going on things like money markets. Take a look at what 13-week T-bills, or Treasury Bills, are doing. That'll give you a much better indication.

Next comment is coming from someone who never juiced. Casey? What do you got?

Casey: Question 3 isn't really a question. It's more of a comment. It was, "I'm retired. I can't live on what the banks are paying?"

Thomas: Okay, so my first gut response when I hear that comment is, "I'm not running for Congress." But it's important to remember something. A CD, a certificate of deposit at a bank, is an asset for you. It's not an asset of the bank. It's a liability. They have your money, they have to give you the money back at maturity, and they have to pay you some interest. They have very little interest in raising the rate that they're paying on a certificate of deposit. It's a liability for them. So when the Fed does start raising rates, they're going to raise rates on their loans. Think about it. We saw a report today that said JP Morgan, Citibank, and Bank of America are going to make somewhere between a half a billion and a billion dollars in one year when the Fed raises rates a quarter of a percent. One quarter of a percent, these guys are going to be printing money. It's going to help their loan portfolio, what we pay on credit cards and car loans and things like that, and mortgages, but it's really not going to help you for a long time when it comes to things like CDs.

By the way, as long as we're talking about this, I'm not trying to put down the comment that we got, but let's just take a walk down memory lane. When was the last time that a one-year CD paid something five percent or higher? Casey, you want to guess?

Casey: Sometime in the 90s?

Thomas: Yeah. It's been 20 years. In the mid-90s was the last time that you saw a one-year CD paying five percent. It's been on a downward spiral ever since, so we're not going to magically go back to five percent CDs. We're going to need a lot of inflation for that to happen, and we're going to need a lot of rate hikes for that to happen, too. So it's doesn't look like it's in the cards anytime soon. Sorry to break your heart.

Okay, that's all we've got for today. Thanks for watching, and we're going to see you next in Episode 4. See, I got it right! I screwed it up on the last video. Thanks again.

Hey, oh before I forget, subscribe! If you're watching on YouTube, just hit that red button down there and subscribe! See you next time.