Tom: In this episode, we're going to talk about Bernie Madoff, we're going to talk about charging fees, and we're going to talk about breaking the streak.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. This is episode number 14. The Gil Hodges episode. You know, the first two uniform numbers retired by the Mets, Casey Stengel, 37 and number 14, Gil Hodges. An original Met by the way.

The questions that we cover, the topics that we over in these videos come from discussions that we have with clients and other folks that are calling in with their own questions. Look, if you're watching this video, and you've got questions about investments, about financial planning, about some other kind of topic, get in touch with us. We might wind up using it in a future video. The usual format that we have with these videos is Casey reads the questions, and I try my darnedest to give you the straight scope. All right Case. What's number one today.

Casey: First question we've got is, how do I know that my advisor isn't another Bernie Madoff?

Tom: Believe it or not, we don't get this question asked enough. The question usually comes up at the end of a first meeting that we have with a potential client. They'll tap dance around it. They feel kind of weird asking it. Don't feel weird about asking this question, because it's really important. We've gotten into the habit of, if we get about 2/3rd of the way through a conversation, a first meeting, with a potential client, we'll stop them, and we'll say, "Look, the two main things that you need to know before you leave today are, one, how does the advisor get paid, and two, how do I know you're not Bernie Madoff?" These are really important questions. How do you know that your advisor is not Bernie Madoff? It's really important, you've got to discover, or find out, ask, "Where's the custody? Where's the asset? Where are they going to be?"

It's pretty rare today that you're going to find an advisor who has custody. That just doesn't happen anymore. The typical arrangement in 2016 is you'll have an advisor who's on the account, and you'll usually sign a limited trading authorization for them to make trades on your behalf in your account. That's kind of important. Understand what's going on. Your assets are held somewhere else. They're at a brokerage firm. You get statements from Charles Schwab or TD Ameritrade or Fidelity. That's who has custody of the assets. When you need to check out of your account, it comes from Fidelity or Schwab or TD Ameritrade. The advisor is on the account, and if you decide at some point down the road, "Hey. I want to stop working with the advisor." It doesn't mean that your account closes at that firm. You can keep the account at TD Ameritrade or Charles Schwab or Fidelity, wherever you've got the account. They're just the advisor on the account.

You can certainly cut the advisor out. They don't have custody of the assets. We got a good question today from someone who called up and said, "How am I going to know that next month I'm going to call, your phone's been disconnected, you're not there, and you're off somewhere with all the money?" It's a really good question. We make sure that when people come in and talk to us that they get the answer to that question, whether they asked it or not. Good question.

All right. Kind of related. Casey lay it on us. Give us question number two today.

Casey: Next question we got is, why can't you just charge $25,000 as your fee?

Tom: I'd love to. Problem is the brokerage arrangements that we have won't let us do that. They're always calculating how much we're submitting on a quarterly basis in terms of fees, so they do the math for us. They tell us, "That exceeds 3% on an annual basis in the account. It won't let you do it." It would be great if advisors could just say, "You know what, I'm going to pay myself $100,000 this quarter, because I'm spectacular." It doesn't work that way. You get a fee schedule or you should get a fee schedule up front when you begin an advisory relationship. Also, it's just good practice that the advisor should be sending you a copy of an invoice. Then, it should match up with what's being deducted from your account on your statement from your brokerage firm.

Any time you get close to, at, or sometimes exceed 3% on an annual basis, you're going to get flag. We won't be able to do it. That's built in for client protection to make sure that they're not just paying fees that are just walking out the door. Again, these are really important questions to ask. This basically came up in one conversation, so we split it up into two different topics, because I think it's worth talking about. Again, the two main questions you need to find out when you begin working with an advisor is, how do I know you're not Bernie Madoff, how does the advisor get paid? Really important.

All right, Casey. You've got another one for us today, right?

Casey: Someone was talking about a study that if you miss the ten worst days of the year, your results are better in the long term. Is that true?

Tom: There's lot of studies like that, and they tend to crop up around this time when markets are really volatile. Studies that show that if you missed the ten best days of the year, this is what your returns were. If you missed the twenty best days of the year, this is what your returns are, or if you somehow sidestepped the ten worst days of the year or the twenty worst days of the year, here's where your returns are. There's a real problem with that. First of all, you'd have to be a day trader to miss the ten best or worst days of the year, because you're moving money in and out of your account. That's usually not a good plan. It usually doesn't end very well. There's a big problem, additionally, that most people don't discover until later. When you get into volatile periods in the market, what we're going through right now, you're going to that the worst days in the market are usually followed pretty close behind by the best days in the market. You get a worse day and it's really bad. One of the ten worst of the year, it's usually followed by or pretty soon after one of the ten best days of the year.

Look, this whole timing the market thing, I mean I think it worked great in the 90s when the dot-coms were exploding and stocks were going up five, six, seven points a day, but I just don't think that's really a recipe for success. Especially, over the long term. Sooner or later, when you do that you may have some initial success, but sooner or later you're going to step on a bomb and it's going to really hurt.

That's what we've got for you today. This was episode 14. The Gil Hodges episode. The next episode that we have, 15 ... Who's a famous 15 that played for the Mets?

Casey: Beltran.

Tom: Carlos Beltran. Number 15. It's a shame that he went to the Yankees though. Too bad. Then, Jerry Grote, our man from the late 60s and 70s. Okay. If you're watching this on YouTube, don't forget to hit that red subscribe button. Thanks for watching. See you on the next one.