

From Financial Dysfunction to Peace of Mind

**An Interview with Bert Whitehead,
Cambridge Advisors**

In the following interview with Bert Whitehead founder, you will hear a brief overview of the unique approach that sets the Cambridge System, and the Cambridge Advisors organization, apart from others in the industry. You received this Audio Business Card from a Licensed Cambridge Advisor. Cambridge Advisors trains financial planners, CFP's and CPA's to use the Fee-Only Cambridge System. The Cambridge System was developed over 25 years by Bert Whitehead and his personal planning firm, Cambridge Connection, Inc.

Bert's financial career began at age 12 while working as a runner and board boy for an E.F. Hutton agency. Years later Bert received an MBA from the University of Arizona and then a law degree from the Detroit College of Law.

After many years of experience as a tax attorney and financial planner, Bert founded a Fee-Only financial advisory firm, Cambridge Connection, Inc., which currently services over 600 clients nationwide.

Not only does Cambridge Advisors provide training and education, they host an alliance of Licensed Advisors, across the United States, which empowers networking, client product discounts and name recognition. Licensed Cambridge Advisors are on the leading edge of Fee-Only planning and provide turn-key, comprehensive personal financial planning to their clients.

Thank You for your interest in Cambridge Advisors, we insure you will enjoy the following informative presentation.

Q: Bert, The title of this audio tape is "From Financial Dysfunction to Peace of Mind." Can you explain this in more detail?

A: I believe that people come to a financial planner because they are baffled, distrustful and dissatisfied. At the same time they feel vulnerable and perhaps embarrassed that they don't-know enough-about their money or feel they are not wealthy enough to get professional advice. The title "From Financial Dysfunction to Peace of Mind" always elicits a smile, a nod of agreement and usually a sigh of relief because most people feel somewhat dysfunctional when it comes to their finances.

Q: "Baffled, distrustful and dissatisfied!" Please elaborate!

A: People are baffled because there are so many financial choices in their every day lives. It is usually too complicated to figure out which is best. Should you buy or lease a your car? If you buy, should you have the dealer finance it or should you borrow from your 401K? What about a home equity

loan? Should you buy a new house? How much should you put down? Which type of mortgage should you go with? Which mutual fund is right for you? When and How do you save for your children's college? Do you need more life insurance? Compound this along with the complexity in the average American's taxes: Can you write off your home office? Can you deduct your computer? How does your neighbor get away with writing off his vacations?

People are distrustful because they know that most financial planners are actually trying to sell them something. Many people have experienced the sales pitch by insurance sales people, stockbrokers, or commissioned financial planners. Most tax preparers shrug when asked about investments and even asking your banker's advice on the best mortgage is tainted by a conflict of interest because they are selling you the mortgage!

Most Americans are dissatisfied with their financial situation. They are not sure if they will have enough money to retire. They are never quite certain which financial option is best for them, and they are afraid to get professional advice because of a hidden sales agenda or it is too expensive for their situation. The statement baffled, distrustful and dissatisfied is an accurate portrayal of most of middle America.

Q: In surveys of clients, the phrase used most often to characterize the benefits they have experienced by having a licensed Cambridge Advisor is "Peace of Mind." What do you think they mean by that?

A-. It means they can trust us. Having a fee-only comprehensive personal financial advisor means you have the four indispensable elements of a trustworthy advisory relationship. First, as a fee-only advisor, the only compensation we receive is what you write us a check for. We are working for you and have no hidden sales agenda. Second, as comprehensive planners, our advice is holistic. We take into account your situation, goals, investment strategy, risk management and estate plan. Third, as your personal advisor, we get to know your unique situation and we work with you on a continuous retainer. Finally, as licensed professionals, we are all Certified Financial Planners or the equivalent, and serve you on a fiduciary basis.

Q: Bert, I keep hearing the term "fee-only" financial advisor. Would you explain what "fee-only" means?

A: Fee-only means we provide comprehensive financial and investment planning for a flat fee and receive no commissions from the purchase or sale of products. In addition we do not pay or receive referral fees. We are members of NAPFA, the National Association of Personal Advisors, which admits only fee-only planners and screens members to assure that we have no affiliation with outside financial service providers which would bias our

objectivity.

Q: What difference does it make to a client how you are compensated?

A: Most financial planners have been - and still are - commission based. Even those that have started calling themselves "fee-based" or "fee-offset" derive most of their earnings from commissions. Thus, if you don't buy what they are selling, they don't get paid. As a result the industry is widespread with stories of unethical planners who sold their clients whatever paid the biggest commission, even if the product was not appropriate for the client.

Even if you work with an ethical commissioned-planner, there is a bias toward financial products which pay commissions and this limits your selection. If the only tool in your toolbox is a hammer, you tend to see every problem as a nail. Insurance salespeople, for instance, are going to recommend life insurance to solve your college planning, estate planning or retirement planning needs.

Q: You mentioned that Cambridge uses a "Holistic" approach. What does this mean in financial planning terms?

A: "Holistic" embraces two concepts. The first is that we integrate the tax, financial and investment planning aspects of your situation. If you ask us how to invest your 401K rollover, we're not going to give you the hot tip of the week. Our recommendation will take into consideration your personal tax situation, your retirement goals, the estate planning consequences, as well as how the rest of your investments are structured.

The second concept is educational. In holistic medicine there is a saying that "all healing is self-healing." Likewise, you can only achieve financial security for yourself- it is impossible to hire anyone to make you financially independent. We see ourselves as guides for our clients. We teach them about their money, we tutor them when they need professional direction but we do not try to take control of their money or their lives..

Q: You also mentioned that you work on a "retainer." How does this work?

A: We provide to clients an open retainer which means we charge an annual fee that covers all of our services, rather than charge an hourly rate. Whenever a client calls or comes in for an appointment during the year, there is no additional charge. With our open retainer it is to our advantage to be accessible: We would much rather handle a client's question early, than have to deal with a mistake later.

Q: This approach sounds impressive, but it's got to be expensive to provide all this service. How much is your retainer?

A: You are right, we are expensive. However, I don't think you should hire us unless we can save you more than we charge you. Before you hire us, we will show you approximately how much we can save you in taxes you are overpaying (often amending prior year returns and showing you tax planning strategies), by putting inactive assets to work, dumping unnecessary insurance, and saving commissions that you may now be paying for biased advice. Typically we save clients two to three times our fee the first year.

Q: It is interesting that you target "Middle America" as your market. How do you define "Middle America?"

A: Well, it easier to specify who it is not. On the high-end, if someone comes to us with a ten or twenty million dollar investment portfolio, we will refer them elsewhere as they are not in our league. On the other end, we don't have any clients on welfare. Our clients include those receiving settlements from lawsuits, inheritances, pensions, divorce settlements or lottery winnings to people who are over their head in debt and need budgeting and debt consolidation advice. Any one who is in between those markets would qualify as a prospective client.

Thank you, Bert. This concludes the first half of our interview with the founder of Cambridge Advisors, Bert Whitehead. The second half of our interview will continue on Side B of this tape and contains more detail on the specific services provided under the Cambridge retainer. we invite you to fast forward this tape to the end and turn it over

Reverse Side

This side of the audio tape will continue our interview with Bert Whitehead. He will elaborate on some of the specific services offered by Cambridge Advisors.

Q: Bert, you mentioned that the Cambridge System provides a holistic approach to taxes, financial planning and investment counseling. I'm interested in exactly what is provided to clients. Let's start with taxes. Are tax returns actually prepared?

A: Yes, We prepare personal income tax returns, and we usually tackle taxes first. Middle America pays more in taxes than any other item in their lives and most can't get anywhere financially, particularly if they are self employed, until they get their taxes under control. We are aggressive and we go after every-deduction that can be justified but we don't cheat the government or participate in fraudulent schemes. Nearly 60% of new clients end up having past returns amended and often the savings alone pays our fee.

The reason we can do this is that we specialize in individual income taxes. We do not do corporate, partnership or fiduciary returns. All we do are individual returns, and we are the experts. Our computerized systems and checklists provide an accuracy level and thoroughness unequaled by even the Big Six accounting firms.

Q: How about tax planning? What approaches do you typically recommend?

A: Tax planning is the most important part of taxes. Although clients are usually amazed and delighted by how much can be saved on their tax preparation, we can save much more through good tax planning. There are basically two aspects to tax planning. The first is to show clients how to structure their lives so they can take every tax break possible. The second is structuring the rest of your financial affairs so it reduces your taxes.

Q: Bert, you say you are aggressive on taxes. The IRS is pretty scary to most people. What happens if a client gets audited?

A: In our standard retainer we include, Audit Protection. This is different than the promise of many commercial preparers that they will

"accompany you to the audit" When a client is audited, one of our attorneys, CPA's or Enrolled Agents represents the client with a power of attorney, so the client generally never even meets with the IRS. If necessary we will take the case to Appeals or US Tax Court at no extra charge. Nonetheless, only about 1% of Cambridge Advisors clients are audited each year, and 80% of those are won.

Q: But let's face it: a lot of people, especially self-employed don't keep very good records. How do you deal with that?

A- First, let me emphasize that we absolutely require clients to report all of their income. Many self-employed resort to "skimming" as a last resort to control their taxes, but that is a foolhardy business practice, for more than just tax reasons. We show them how to pay less taxes without cheating.

As part of our basic retainer services, we include record-keeping. We have standardized on Quicken and have developed our own chart of accounts for client use. We offer clients the software, the chart of accounts, sit down with them and show them how to use it.

We also provide a very efficient home filing system and investment tracker for clients to get their life organized. The better records you keep, the better job we can do for you.

Q: This all sounds very organized. How about the financial planning part? How do you project for retirement, etc.?

A: Cambridge Advisors believes that financial planning is a process, not an event. We have a series of meetings with clients, each covering a specific part of their plan, like taxes, record-keeping, insurance review and estate planning. At each of these meetings, written specific recommendations are prepared in each area and then we help you implement them. This process continues year after year, so the financial plan evolves and grows with you.

Central to this process is goal setting. An entire appointment is dedicated to clients just thinking through and clarifying their goals. Most clients do not have clear goals and have been hampered by dysfunctional belief systems about money, so we help identify and rethink their values. Then we help develop financial objectives to meet annually to reach their goals. One year the objective might be to get out of debt., buy a house, start saving 10% of income, or diversify their investments. Each year their progress is evaluated and new objectives are set.

Q : Insurance is usually confusing to people, how do you help them in this area?

A: Our basic retainer includes a comprehensive insurance review,

including life, disability, car, home, long-term care, and liability. Most people only get advice on insurance from someone who is selling it to them. We recommend how much insurance they need and tell them exactly what kind to get and how much it should cost them. We also recommend a no-commission policy and will give them numbers to call if needed. We also track clients' life insurance companies in a data base, review them quarterly and then advise clients if their insurer is downgraded.

Q: When it comes to estate planning, do you set up trusts for clients?

A: No, we talk clients out of having trusts more than we recommend them. In most states, middle income Americans don't need trusts. They are expensive to set up, they are very complicated, people don't really understand them, and the biggest problem is that they must be regularly updated. You can expect that every two or three years either the law is going to change, or your circumstances change, your assets change, or you change your mind. However when a client does need a trust, for example to reduce estate taxes, we advise them on how the trust should be structured, give them a list of attorneys who can draft the trust, review it and then make sure it is properly implemented by titling assets, etc. Our basic retainer does include a simple will and living will or durable power of attorney for health care prepared by a licensed attorney. Moreover, we include will updates at no additional charge whenever a client's situation changes.

Q: When it comes to Investments, how do you advise clients to structure their portfolio?

A: We start with a portfolio review. We inventory all of their assets and analyze their investments. Next we develop an asset allocation strategy based on their goals, their risk tolerance and their tax situation. Then we compare their current investments to the strategy. We usually do not recommend a client sell everything and start over, but we may suggest unloading bad investments, particularly if there is a tax advantage. and shifting certain investments to improve diversification.

We also spend a lot of time on a real estate. Most middle income Americans make more on their house than any other investment. We recommend when they should move, how large a house to buy, what kind of mortgage is appropriate, etc. Moreover, many of our clients have real estate investments and we make sure they are getting the maximum tax advantage.

Q: Then do you recommend specific stocks for clients, or just give them generic advice?

A: Most clients don't have large enough investment portfolio to be properly diversified with individual stocks. We do allocate about 10% of the portfolio for speculation, however, for clients who like to play the market, and we recommend that they use a good stockbroker. For clients that have very large portfolios, we recommend that they use a professional money manager, and we will assist in screening and monitoring the managers.

Most of our clients are better off with mutual funds. We analyze and suggest specific no-load mutual funds. We select only the highest rated funds with low expense ratios and at least a five year track record for our model portfolios.

Q: I've been told that no-load funds have higher expenses and in the end there is no difference from buying a loaded fund.

A: That is simply not true. On the second page of each mutual fund's prospectus, they are required by the Securities and Exchange Commission to fully disclose all sales charges and expenses. Even a cursory review of this information will confirm that no-load funds do not have higher expenses, and indeed usually have lower expenses.

Q: So where do clients purchase these funds?

A: Most Cambridge Advisors offer two approaches to their clients: a self-directed portfolio and a directed portfolio. With the self-directed option, we advise clients which specific mutual funds they should buy and give them the funds' 800 numbers. Or tell them which of the 401-K or TSA options are best. It is up to them to implement and we review their portfolio annually.

With the directed portfolio option, the client sets up an account with Schwab where we are listed as the financial advisor. Note that we do not receive any compensation from Schwab, they have a program set up for fee-only planner to monitor clients accounts. Then when we recommend a fund from our model portfolio, we call Schwab and have the order executed for the client.

Q: Do you monitor these portfolios?

A: Yes. Every quarter we review the funds in our model portfolios and identify any funds which have been downgraded, or changed managers, or undergone "style-shift." Then we advise any clients who own these that we are substituting the XYZ for the ABC fund, for these particular reasons. We invite clients then to call us if they want to confirm their portfolio to our model portfolio and we help them make the shift.

Q: This is an incredibly comprehensive package! Your services cover

everything from taxes to investments and everything in between. What is available for clients who want to get more in depth in these areas?

A: We have an audio tape seminar series available for clients. Some of the more popular titles include: Investment Strategies, Financial Issues in Second Marriages, Your Money Personality, Real Estate Strategies, and over a dozen others. These are available from the Licensed Cambridge Advisor that you received this audio tape from.

Q: How does the person listening to this tape find out which retainer is for them and more importantly, how much will it cost?

A: During the initial consultation the advisor will discuss with you the areas that you need most. This will determine which retainer is appropriate and will also determine your cost. The Initial fee is based on a formula, which takes into account your assets, income and complexity of situation. Each Cambridge Advisor has their own fee schedule and you should discuss the exact fee with them. Your initial fee includes anywhere from 8 to 20 appointments over a 6 month period covering taxes, amending prior years where appropriate, in depth tax planning, setting up records, goal setting, reviewing insurance, will and power of attorney, estate planning, analyzing investments, developing an asset allocation strategy, making investment recommendations and help implement.

After the first year the renewal fees are generally about 30 to 50% less than the initial fee. This includes 2 to 5 scheduled appointments. Typically your taxes are done in the first quarter, a tax planning session in the summer, investments review in the autumn, and then at end of the year a year-end tax review and setting new financial objectives for the coming year. In addition, we are available throughout the year for any questions that come up.

Q: This seems reasonable for all the services provided, but I'm not sure that all people will need all of these services, especially if they are just starting out. Are there other alternatives?

A: Yes, we offer limited retainers which do not include tax preparation and have a fixed number of hourly appointments. For example, our "Starter Retainers" are popular for young people just starting out with assets of less than \$25,000. It includes wills as well as a 2 hours of appointment time which the client can allocate among insurance review, budgeting, 401-K goal setting, record-keeping, etc. depending on their priorities. Our "Mini-Retainer" is designed for clients with less than \$100,000 in assets. It includes everything that the Starter retainer offers plus an additional 2 Hours for investment counseling, retirement planning, or planning the purchase of a home. We also have limited retainers for specific projects, for example to help structure a divorce settlement where the full range of services are inappropriate. Clients who start out with a limited retainer

can also convert to the standard retainer in the future and whatever they have paid over the past 2 years is credited against the fee.

Well, Bert, this interview has certainly provided us with an in-depth presentation of the advantages offered by a fee-only personal financial advisor. Thank you!

This concludes the presentation. Naturally the benefit you will derive from this interview depends entirely upon you. If you are interested in finding out how the Cambridge System might be able to help you, we invite you to call today. You can contact the Licensed Cambridge Advisor who gave you this audio tape by calling the number on the card on the inside of the package or you can contact Cambridge Advisors direct at 1-888-834-6333 to find a Licensed Cambridge Advisor in your area. Cambridge Advisors has over 70 Licensed fee-Only planners throughout the United States that provide the comprehensive, holistic financial planning services you heard on this tape. The initial consultation is of no charge and you are under no obligation. Cambridge Advisors welcomes your questions and comments.

This tape is recyclable! If you enjoyed it, please pass it on to a friend who may be interested. Otherwise we would appreciate your returning it to the address on the back cover of the box. Thank you for your interest in Cambridge Advisors and we look forward to your call!