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**MENTOR**
C A P I T A L

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Mentor Monthly Missive

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It's not always dollars and cents

The following was prepared with help from Bob Veres, a veteran journalist and editor who specializes in writing about the financial planning profession.

What's the true value of financial planning? It comes down to more than just dollars and cents. Here, to remind clients and inform non-clients about what we do for them, is a short list:

- 1.) We provide our clients with peace of mind. Because of the comprehensive nature of our work, our high level of expertise and the fee-only nature of our business, clients are assured that our advice is thorough, prudent and free from most conflicts of interest. Clients who fully engage with us in the financial planning process know they're doing the best for themselves financially. Concerns about issues such as saving enough for retirement, properly managing risk, estate planning, investments and managing income taxes are addressed and put to bed.
- 2.) We help clients keep track of – and make more efficient – their financial affairs. A typical person that comes in off the street had a will drawn up—some time ago. He's not sure exactly when and has a mild curiosity, now that you bring it up, about what it says, but who knows where it is now? Then there's an insurance policy in a drawer somewhere, and it may be term or it may be a cash value contract; all he knows for sure is he writes a check to the insurance company every year, and if you give him a few minutes, he might be able to find last year's check register and tell you how much he paid.

The auto insurance policy he happens to own is way more expensive than the lowest rate available in the market, and the homeowner's policy hasn't been updated since the Clinton Administration. Refinance? He's either paying 8% or 6% or maybe 7%, and what are the rates like today? But at least the portfolio is diversified. He owns six different small-cap value funds, all managed (he tells you proudly) by different fund companies.

But people who are not professional financial planners find all these things incredibly complicated and confusing –and they prefer to focus their attention on work, home, family, the things they feel are really important. They KNOW they're leaving money on the table, overpaying and not getting the returns that the market offers. They know that their disorganization and lack of financial awareness costs them money; what they don't know is what to do about it.

When we sit them down and put everything in one place, and show them how it all works, we are taking away the anxiety that comes with normal disorganization and replacing it with a sense of peace that, at last, the paperwork is being attended to and the decisions are being made with a degree of competence. Plus usually save them money on some of the things they were overpaying for. This is incredibly valuable to clients' sense of well-being and personal confidence about life.

- 3.) We help clients create an organized, diversified portfolio, and we stand between them and the dysfunctional emotional decisions that everybody makes with their own investments. We can show you that even if you knew in advance which asset class was going to generate the highest rate of return over the next 10 years, it could still generate less terminal wealth than a diversified portfolio that blends three lesser-returning asset classes. This, of course, is the magic of a smooth investment ride; any portfolio that experiences big negative years will produce less terminal wealth than a comparably-performing mix of investments that takes a smoother course to its destination.

We can get our clients a higher rate of return than they would get on their own simply by taking a portfolio put together under the influence of a succession of salespeople touting hot this or that, and putting it somewhere near the efficient frontier. Chances are, over 10 years, this alone will more than pay your planning fees.

But there's much, much more that relates to today's market environment. Left to their own devices, many – perhaps most – clients will panic and sell at or near the bottom of a market storm, and then return, years later, when they get caught up in the buyer's frenzy at or near the top. Terry Odean, a professor at Berkeley, has taken a lot of customer data from two big discount brokerage houses and found that people who traded most frequently experienced the lowest returns. There have been numerous studies, by the Dalbar organization and others, that show that because of their trading habits, investors experienced much lower returns than the markets or the mutual fund industry were delivering.

One credible study estimated that more than 70% of all day traders lost all their money in the late 1990s during the biggest bull market period in history – a time when the markets were delivering more than 20% a year. The point here is that we don't have to time the market or find above-market-return investments to add tremendous value to clients' financial lives. Today, even if our clients fully participated in the downturn, if they will also participate in the recovery, then they will greatly outperform the average investor in the marketplace. The difference between the returns our clients get and what the average investor gets, measured in terminal wealth dollars, is probably many many times what we charge. And it is only an incidental part of the value that we offer.

- 4.) We help clients get into the habit of saving (and investing) a portion of their income. The 2004-2008 savings rate for Americans hovered around 0% of income. But the keepers of these statistics don't tell you that they probably overstated the actual rate, because they didn't include things like increasing credit card balances or home equity loans – so that when people put money in their savings account, and at the same time ran up even more debt, it counted as an increase in their savings.

The well-kept secret about the investment markets is that a person's savings habits have much more effect on his or her terminal wealth at retirement than the rate of return on the portfolio. People who save 10% of their income will have far more terminal wealth over 30 years than people who save very little but get an extraordinary rate of return. And when market returns have been negative, as they have recently, it is possible to rebudget, save more, and recover the same overall level of wealth despite the losses.

The problem for most consumers is that there is no voice advising them to pay themselves a fair percentage of the income they earn. Instead, they are bombarded by messages that make powerful arguments to do the opposite: to buy this, that or something else. When we become that voice speaking out in favor of saving, and help organize clients' lives so that the money that goes into an investment account is treated as one more expense that has to be paid every month, we provide an incalculably valuable service.

- 5.) We help people identify what is important in their lives, and prioritize their goals. The vast majority of people in our advanced, prosperous society have not taken the time to figure out what they really want out of the all-too-brief time they will spend on this planet. And because they don't know their destination, you know they will never reach it. They are, in a very real sense, doomed unless acted on by a powerful outside force. The

questions we ask help clients recognize this deficiency in their lives, and lead them to identify their most personal goals and desires. This is a gift that is priceless.

- 6.) We help people turn seemingly impossible goals into a routine that can achieve them. We show clients that any goal can be broken down into manageable, monthly increments, and achieved by routine and persistence. Clients who have goals that they don't believe they can achieve are put on a schedule that will get them there as a matter of routine. Put another way: we make it more likely that our clients will achieve their most meaningful and important goals. What's the value of this? Probably more than we could charge.

We're glad to have this opportunity to blow our own horn a little, because we confidently believe that nobody in the world makes as much of a difference in peoples' lives as a well-educated, caring, ethical financial planner.



Tax returns, please

We want to remind clients whose tax returns we do not prepare to send us copies as soon as it's possible.

We make countless investment and financial decisions that are affected by a client's tax profile, and having a copy of their most recent state and federal return is essential.

Clients who don't have an extra copy can stop by, and we'll be happy to scan the returns into our system.



Annual ADV update available

The U.S. Securities and Exchange Commission requires investment advisory firms on an annual basis to update their registration statements. This information is conveyed to the SEC and clients via Form ADV.

Mentor Capital Management Inc. is happy to announce that its updated ADV Part II is available for all clients' review. Form ADV covers many aspects of Mentor Capital's business, including actual and potential conflicts of interest; business procedures; privacy policies; biographies of representatives of the firm; and fees.

If you would like an updated copy of Mentor Capital's Form ADV Part II, please call or e-mail John, Dan, or Tammy any time.



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