FREE

A PUBLICATION OF
AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

ISSUE 3.1

In this issue:

CONTENTS

FROM THE EDITOR-IN-CHIEF

As we enter our third year of publishing *FREE*, I reflect on the body of information that has been amassed in a relatively short period of time. We've profiled and interviewed two dozen financial professionals and staff members and published more than 50 articles from some 30 contributing writers who are affiliated colleagues, staff members, and focus or business partners. This accounting of content shows the enormous wealth and exchange of knowledge that exists within our organization. Through *FREE* we see how our affiliated professionals have developed their practices and the ways in which they service their clients in the communities where they live. We've kept our readers abreast of developments in elder care, tax deduction advantages, intergenerational wealth transfer, and legacy planning. Our contributing writers have shared their insights about the economy and market conditions and discussed ways to serve clients in the best of times and in the worst of times. Finally, the firm, in its commitment to transparency, has reported its quarterly performance results in every issue. In these difficult times more than ever, staying connected is important, and what better way to do so than through sharing the expertise and ideas of industry peers communicated in the pages of *FREE*.

We're happy to present you with a newly redesigned and improved *FREE*. Printed in a larger font size with more defined areas and directions for locating content, we trust the redesign will make for an easier read.

Before you turn to the areas that interest you, check out the community corner for a calendar of upcoming company and industry events and home office announcements. Then move onto the columns from the regular contributors, particularly Chief Operating Officer Dean Bruno on his operational progress report (pg. 5) and Chief Legal Counsel Frank Tauches on a discussion about risk management (pg. 6).

To get your fill of practice management fare, for starters there's another lesson from Manager of Advisory Business Development Joe Borriello on niche marketing and how to develop a positioning statement (pg. 7). Then Rebecca Dolber provides insight on the technological divide among generations and how that can affect your support team (pg. 14). And finally Chief Executive Officer Lon T. Dolber shares his thoughts on the merits of forming a client advisory board (pg. 26). Recently he was asked to speak at an advisory board meeting of colleague John Kosinski's clients and was impressed with their interaction. If you want to know how to create one, I encourage you to read focus partner OppenheimerFund's white paper titled "Establishing a Client Advisory Board" (pg. 22).

On current economic and market conditions, we hear from a new voice in the field. With a commentary as articulate and astute as those written by colleagues Steve Molyneaux, Ron Chakler, and Pat Powell, Malcolm Webb of Bloomfield, Ind. provides reverse (or should I say perverse) logic for some positive signs in the market (pg. 8).

In this issue we also feature colleague Bob Clayton of Brightwaters, N.Y. He has a close and personal relationship with his clients and, true to his affable demeanor, he meets with them in the comfortable and convivial surroundings of his home office overlooking the Great South Bay (pg. 17). While Bob is putting his clients at ease as best he can, affiliated colleague Joe Birkinbine of Steamboat Springs, Colo., in a Q&A with *FREE*, states he's offering the same advice to his clients that he gives his students as a flight instructor—that is, not to panic (pg. 12). Just remember, if there is anything APFS can do for you, Relationship Manager Melissa Wade and her team are your first point of contact (pg. 10).

Finally, there's always time to learn something new or indulge in a refresher. With this in mind, we've tapped into our well of expert resources, who have covered an assortment of financial topics. In this issue, colleague Stephen Molyneaux and focus partners Franklin Templeton and Penn Mutual provide useful, practical information on SIMPLE IRAs, Social Security benefits, and irrevocable trusts.

Happy reading!

Melissa Grappone
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WANT TO SHARE YOUR THOUGHTS?

We d like your feedback on the articles you read here. What did you like? What can we do better? What would you like to see us cover? Send your thoughts and ideas to Terri D'Arrigo at tdarrigo@americanportfolios.com.

FREE

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Managing Editor Terri D'Arrigo

Chief Executive Officer Lon T. Dolber
President Tom Wirtshafter
Chief Operating Officer Dean Bruno

Contributing Writer Rebecca Dolber
Design Exit10 Advertising, LLC

CALENDAR

FP – *Focus Partner Corporate Events at American Portfolios, Holbrook, N.Y.*
(Please call Mary Ann Rosolino at 800.889.3914 ext.154 to confirm your attendance)

Date		Event
March 30	FP	**Lunch Meeting sponsored by Penn Mutual** Kelly Sullivan, noon
April 6	FP	**Lunch Meeting sponsored by American Funds** Steve Calabria, noon
April 7	FP	**Crump Insurance Presentation** 10:00 a.m.
April 10		**Market and AP Corporate Office closed for Good Friday**
April 13	FP	**Lunch Meeting sponsored by AXA** Lorraine Lods, noon
April 13		**American Portfolios OSJ Manager/ Principal Conference Call, 4:15 p.m.**
April 15	FP	**Lunch Meeting sponsored by John Hancock** Nick Barnwell, noon
April 27	FP	**Lunch Meeting sponsored by Nationwide** Susan O'Connor, noon
April 27		**Financial Services Institute Spring Discussions** *JW Marriott Denver, Cherry Creek, Denver, Co.* www.financialservices.org
April 27-30		**Financial Planning Association Retreat 09** The Art & Science of Financial Planning www.fpanet.org/eventsconferences/
April 29	FP	**Lunch Meeting sponsored by Jackson National** Steve Burke, noon
May 4	FP	**Lunch Meeting sponsored by National Integrity** Keith Carravone, noon
May 4-7		**American Portfolios Regional Conference** *PGA National Resort and Spa, Palm Beach Gardens, Fla.*
May 6	FP	**Lunch Meeting sponsored by Metlife** John Nahas, noon
May 6-9		**FINRA Annual Conference** *The Westin Boston Waterfront Hotel, Boston Mass.,* www.finra.org/industry/education/conferencesevents/
May 18	FP	**Lunch sponsored by Franklin/Templeton** Bill Sheluck, noon
May 25		**Market and AP Corporate Office closed for Memorial Day**
June 1	FP	**Lunch sponsored by OppenheimerFunds** Wendy Ehrlich, noon
June 8	FP	**Lunch sponsored by Prudential** Carrie Short, noon
June 15	FP	**Lunch sponsored by Penn Mutual** Kelly Sullivan, noon

CONTRIBUTORS

Malcolm Webb is an affiliated colleague in Bloomington, Ind. He has a degree in Economics with a minor in Beta Theta Pi from Indiana University. He began his investment career as an infant, with a gift of 100 shares of Phillips Petroleum, which he still owns, having briefly "shorted" it in the 1990s to pay for a camping trip in Algeria.

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Stephen Molyneaux is an affiliated colleague in Atlanta, Ga. He is a regular contributor to *FREE*, having shared his thoughts in "Economic Commentary" in several previous issues. This is his first contribution to "View from the Field."

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STUDIO 4|5|4

ON-DEMAND VIDEOS
LINE-UP

Studio 454 offers an exciting range of videos to enrich your practice and keep you updated on what's happening in the world of financial services. Click into Studio 454 on the American Portfolios broker website to see the latest.

Registered Rep Panel
As part of its coverage of the 2008 Annual Conference in Las Vegas, Studio 454 captured the Registered Rep panel interview hosted by Executive Vice President and Chief Legal Counsel Frank Tauches.
Keywords: Registered Rep Panel.

Co-Branding with Retirement Plans
Affiliated colleagues Brett Shofner and Ken Hauck share their expertise in retirement programs and defined contribution benefit plans.
Keywords: Co-branding with Retirement Plans.

Introduction to Pershing Managed Account Solutions
Pershing Relationship Manager Rich Touhill and Regional Director Jae Yu deliver an overview of the Pershing Managed Account Solutions delivery platform.
Keywords: Pershing Managed Account Solutions.

Early Distributions From Retirement Assets
Executive Vice President and Chief Legal Counsel Frank Tauches and Pacific Life Retirement Resource Group consultant Joseph Souza discuss taking retirement withdrawals at age $59\frac{1}{2}$.
Keywords: Early Distribution Retirement Assets.

401(k) Solutions
Affiliated colleagues Rick Cross and Brett Shofner discuss the changing landscape of employer pension and deferred compensation plans.
Keywords: 401(k) Solutions.

Employee of the Quarter
ANNE ANTUNOVICH

Director of Finance and Accounting Anne Antunovich has been with American Portfolios since the beginning. She remembers when there were only eight people on staff and has seen the company grow and expand to 57 employees serving nearly 600 affiliated colleagues. With that kind of loyalty and staying power, it's clear to see why she is the new American Portfolios Employee of the Quarter. Each quarter, the firm recognizes an employee whose service demonstrates a commitment to assisting affiliated colleagues and going beyond the responsibilities of their job descriptions.

Antunovich has a reputation around the firm not only for her wealth of company knowledge, but for her willingness to share it.

"I've been working with Anne for four and a half years, and she has always been thorough, helpful, and polite," says Michelle Schwab, Accounting and Commissions Associate. "When I started, she didn't mind that I was constantly asking her questions every other minute. I've learned everything from her. She knows how to get stuff done."

What Antunovich gets done is a lot. She directs, manages, and oversees the firm's financial affairs; develops and reviews the annual budget; develops and monitors procedures and internal controls; and supervises the Finance, Commissions, and Accounting staff. She also oversees payroll preparation and researches and manages insurance coverage policies such as errors and omissions insurance, workers compensation and disability insurance, and liability insurance.

Yet even with such a full plate, Antunovich says she's more than happy to pitch in wherever necessary. "That's the beauty of starting with a small company. You get to help out with everything and grow as the company grows," she says. "I've been exposed to Compliance, Corporate Communications, every department. I enjoy being involved in several things."

She says that diversifying this way enables her to better serve the firm's affiliated colleagues by keeping things in the Holbrook headquarters running smoothly. "That's what we're here for," she says. "American Portfolios is all about service."

Congratulations, Anne!

Editor's note: True to her reputation as a leader who is generous with her time and knowledge, Antunovich recently spoke with Rebecca Dolber about technology and the generation gap. See "Future Past" on page 14 for more.

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NEW EMPLOYEES

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Joined APFS in December 2008

Responsibilities:
As Accounting Associate, Mary supports the daily functions of the Accounting and Finance Department, including assisting with accounts payable and receivable, check disbursements, and bank reconciliations; reviewing invoices; investigating and resolving firm account discrepancies; and preparing various financial reports for the department and upper management.

Biography:
Mary has more than 10 years of banking experience, having worked for Citibank in various administrative and managerial capacities from 1979 to 1990. After leaving the workforce to raise her family, she returned in 1995 to work for various firms on Long Island. Mary has an Associate's degree from SUNY Farmingdale.

Tom Wirtshafter

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Joined APFS in December 2008

Responsibilities:
As president of American Portfolios Financial Services, Inc. (APFS) and American Portfolios Advisors, Inc. (APA), Tom oversees all broker/dealer and advisory service operations.

Biography:
Prior to being named president of APFS and APA, Tom had been a board member and consultant for APFS since 2004. He brings more than 30 years of experience to the firm, having served as chief operating officer first with Nathan & Lewis Securities, Inc. before its acquisition by MetLife, then with AXA Advisors. Tom also has a long history of work with FINRA, serving as the vice chairman of the District 10 Business Conduct Committee, and he currently sits on the Uniform Practice Code Committee. He is also on the board of The Culture Project, chashama, Inc. and The Town Hall Foundation.

A NEW BEGINNING
By Dean Bruno

The last three months of 2008 were, to say the least, trying. With the national conference behind us, the operations area had very little time to bask in the fruits of our labor before meeting new challenges. The management changes instituted at the close of the third quarter could not have been timed better. The addition of Representative Services, the management entity headed by Jared McGill to oversee Transitions, New Accounts, and Relationship Management, enabled me to focus my attention on the heavy selling activity and developments surrounding the Reserve Fund, events that have consumed operations. Like many in this business, we moved forward into a new year and a new beginning.

This year is a critical year for American Portfolios. With a contracting industry forcing a sea of investment professionals to find new broker/dealers, the firm is seizing the moment and meeting with the largest wave of potential representatives we could ever have hoped for. We are positioned for tremendous, yet responsible, growth.

To help us meet the challenges that lie ahead, in January we welcomed Tom Wirtshafter to the senior management team as President of the broker/dealer and the advisory firm. Tom brings enormous insight to the firm on a wide variety of matters, including transitioning new representatives, technology enhancements, and risk management. Tom has begun working on business surveillance, an area of the firm that is currently in its early stages but yielding important data for the firm. Jon Michaels, who is on special assignment as a Surveillance Associate, is working with Tom in developing this area.

My colleagues and I are excited to be working with Tom in solidifying our growing advisory business and building upon the firm's already strong foundation. Just as I will be working closely with Tom in Operations, so too will Colin Ramroop in Business Technology, Frank Tauches and Frank Giacchetto in Product Due Diligence and Compliance, and Tom LoManto in Advisory Services.

Regional Meetings
After the success of the 2008 National Conference in Las Vegas, we launched this year's series of regional meetings on January 19 at the Hyatt Regency WindWatch in Hauppauge, N.Y. This three-day meeting drew more than 100 colleagues from around the New York tri-state region and included track sessions in business-building, business solutions, Web services, and branch supervision and management. The meeting also incorporated American Portfolios Advisors' INSPIRE series and a variety of informative general sessions that covered the state of the firm, included economic and market commentaries, and provided a forum for sharing ideas. We will use the same general format for future upcoming regional meetings, but will also add CE credits. We will also fine tune the regional meetings in response to the feedback attendees provide us on follow-up surveys.

Our second regional meeting is set for May 4–6 at the PGA National Resort and Spa in Palm Beach Gardens, Fla. The third and final regional meeting will be held in the fall in Indianapolis, Ind. (We were finalizing the details for a date and venue when *FREE* went to press.) As we make our way through what will be a challenging year for the business, we encourage you to register for the regional meeting closest to you. I look forward to seeing you there.

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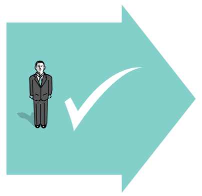
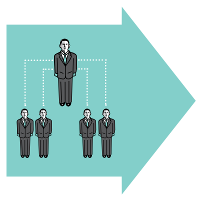
THE IMPORTANCE OF RISK MANAGEMENT

by Frank A. Tauches, Jr.

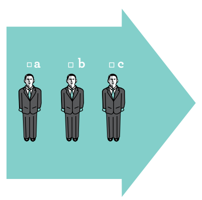
As general counsel of American Portfolios Financial Services, Inc. (APFS) and chairman of the firm's Risk Committee, I would like to share some observations of my last five years here and my 30 years in financial services to help each of you in one important aspect of your practice: risk management. Managing risk is crucial to your future and the continued welfare of APFS. All of us have a responsibility to minimize risk, and I would like to share what we do at the home office to keep risk low.



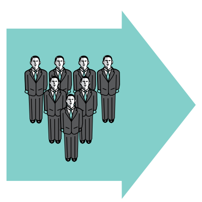
Affiliating the Right People We avoid a plethora of problems because the people who cause them are not registered with us. We have maintained extremely high standards in selecting financial professionals to affiliate with APFS, and our prospects are required to provide an enormous amount of information for review by staff in our Transitions and Compliance departments. At our corporate headquarters, Senior Vice President for Business Development Tim O'Grady maintains a highly focused and discerning review process that brings the right people to us and keeps the wrong people out of the firm. Individuals who join us are right for APFS in every way and, most importantly, APFS is right for them.



Supervision Our supervising principals are talented and experienced individuals who take their responsibilities seriously and use the technology and management tools APFS provides in overseeing the firm's daily business. Our managers know when to ask for help from the Compliance Department and our staff in Relationship Management knows when to escalate any issue to higher management for timely and proper resolution.



Due Diligence We are careful in selecting vendors and products. Our insurance and mutual fund sponsors are well-established, reputable firms whose products reflect the needs of our clients. Each provides not only superior marketing support through product specialists, but also provides excellent customer service. In the investment advisory area, Senior Vice President of Advisory Services Tom LoManto and his staff do an excellent job of finding the best asset managers. Jim Goedtke, our due diligence analyst in the area of alternative investments, brings not only his years of experience in these specialized products but his long-standing relationships with due diligence professionals in the field.



Risk Management Since its inception in 2007, our Risk Committee has reviewed many proposals for products and investment strategies. Composed of President Tom Wirtshafter, Chief Operating Officer Dean Bruno, Senior Vice President and Chief Compliance Officer Frank Giacchetto, Senior Trader Marc Johnson, Operations Manager Phil Bredow, product experts within our firm, and myself, the committee strives to protect APFS's assets and reputation by ensuring that products approved for sale and distribution represent quality and are backed by providers who are solid leaders in their profession. We review strategies carefully to determine what the risk is to the customer and what exposure exists for registered representatives, investment advisors, and the firm.

What You Can Do

All of the aforementioned practices serve as the firm's framework for reducing risk, but the real test comes with every new account and with every transaction our affiliated colleagues execute. Likewise, there are steps you can take to keep risk to a minimum in your relationships with your clients.

Know your customer.
An important way of getting to know your customers is through the new account form (NAF). Make sure the information is complete and accurate, particularly the financial information. Remember that clients are going to see this information when we send them our welcome letter and indicate the information that we have about them. Update the NAF as needed when a client's situation changes. Have the client sign the completed NAF.

Review transactions and client statements.
Most errors are small when discovered quickly. By checking each transaction and reviewing client statements, you ensure that the transactions executed were the ones intended. This practice enables you to catch an error before your client does. If there is a problem, immediately bring it to the attention of the appropriate entity (mutual fund, trading desk, operations department) and advise your manager. Keep concise notes of what actions you are taking and to whom you are speaking to resolve the problem. This will help should the problem have to be escalated for resolution.

Diversify.
Avoid overconcentration in single securities and market sectors and ensure that investments are suitable and consistent with each client's investment objectives and risk tolerance. Review your clients' portfolios with them on a regular basis. Always stay in touch and be available when your clients call. Tougher times in the market require closer contact.

Let us help you.
When you are confronted with an issue or problem with a client, seek the help of your supervising principal and the APFS Compliance Department. Most importantly, don't try to hide a problem or "trade" out of it; the situation will only worsen. Although this may be the first time you face a certain challenge, remember that our firm has a wealth of talent and experience and there is a good chance that there is a simple solution. One thing is certain: We will use all the resources of the firm to support you and resolve the issue.

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INSPIRE

NICHE, TAKE TWO

by Joseph Borriello

In the last issue of *FREE* we discussed the importance of finding your service niche as an advisor.* Your niche should not only align your practice with your ideal clients, but also promote you as an expert to those clients as you service their specialized needs. This quarter, we'll look at a group of advisors who serve a niche with excellent results.

I recently had the opportunity to hear Patricia J. Abram, Senior Managing Principal at CEG Worldwide LLC speak at a TD Ameritrade symposium. Her presentation, "Best Practices of Elite Advisors," included coverage of a CEG Worldwide study of 2,094 financial advisors that clearly illustrates the power of a well-honed niche.

In the study, financial advisors were grouped into four segments based on the number of clients they serve and whether the advisors were making more or less than $300,000 net before personal taxes. This created four quadrants as shown in the table.

	Income of $300K or less	Income of more than $300K
150 clients or fewer	Quadrant 1	Quadrant 4
More than 150 clients	Quadrant 2	Quadrant 3

The symposium focused on the practices of the advisors in Quadrant 4 (Q4), those who generate the most income from the fewest number of clients. These advisors comprised only about one-eighth of advisors in CEG's study. Their average annual net income is $461,000 and their average book size is $530 million, where the advisor is receiving recurring revenue. Take a moment here and compare your own business to those in the table. In which quadrant are you?

A common thread among Q4 advisors is that they all serve a niche, a specific pool where their existing and prospective ideal clients reside. Not only do clients in this niche have similar characteristics, they also have similar needs and goals. This allows the Q4 advisor to provide a consistent, streamlined client experience from start to finish and creates efficiency in the advisor's practice to keep costs low.

Your defined niche should be micro in scope.
It should not be as general as serving small business owners in a particular region, but instead might focus on serving proprietors of gourmet food stores in a particular region who would like to expand their offering. This may sound limiting, but it will allow you to anticipate and more fully meet the needs of your ideal clients. It will enable you to create a consistent client experience and systematize your practice so that you may rise to the Q4 level.

Develop a Positioning Statement
"When time is short and the stakes are high, you need to be bold and you need to be different," says Abram. To that end, she encourages advisors to develop positioning statements specifically for qualified prospects or referrals.

Your positioning statement should be wrapped around your value proposition, including a profile of your ideal clients—those in your target niche. The positioning statement is not your elevator speech, but your 10-second answer to the question, "What do you do?" Your positioning statement should strike a chord with your ideal clients and have an element of exclusivity that whets their appetites and makes them want to know more. Then, once you have identified a qualified prospect or referral, you can get into your elevator speech. In her presentation, Abram provided several examples of positioning statements, such as, "I help dentists in the greater Manhattan area become untethered from the chair," "I help cardiologists within 10 years of retirement make surgery optional," and "I help widows in Westchester County feel assured that they will run out of breath before they run out of money." All are short on words and long on emotional appeal: They are different and bold.

The positioning statement is not your elevator speech, but your 10-second answer to the question,"What do you do?"

Challenge yourself to identify your true ideal client.
Keep in mind this is not an exercise in limiting your potential but in expanding your opportunities to serve your ideal clientele, increase your profitability, and garner great satisfaction from your work. Your ideal clients might be clients you currently have, or they may not. They may still be out there, in need of your services. If you want to elevate your practice, it will be necessary for you to challenge yourself, even if it means moving out of your comfort zone.

* *To review previous articles that have appeared in this column, log into the American Portfolios Web site, go to Advisory Services, open the Practice Management folder, and then click on "FREE Articles."*

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WHAT'S NEXT

by Malcolm M. Webb

As of the beginning of the year, we're currently enjoying the third-worst bear market in history and the worst decade (trailing 10-year returns) for stocks since 1827. However, we've been feeling the crunch for months now. Many American Portfolios colleagues with accounts at Bear Stearns found themselves slogging through the pre-recession credit crisis back when they confronted the Reserve Funds failure. As we attended conference calls from around the country, it soon became clear that we were being summoned to walk our clients through a loss in what was supposed to be the safest part of their portfolios. It was like winning the lottery in reverse: A very small percentage of people invested in money markets actually lost money through them, but many of our clients held the "lucky" tickets. The Reserve's flurry of optimistic press releases only heightened the mood.

Our clients want to know exactly when this will end and exactly what's going to happen to the market. If I knew the answer with any kind of precision, I'd be sending this column in over a wireless connection from an 80-foot yacht, but I'll give it a go. Do you know that rule for the bedroom where it's okay to point and it's okay to giggle, but not at the same time? There's a similar rule in economic forecasting: It's okay to give a date and it's okay to give a number, but if you do both at the same time you're asking for trouble.

Once the Fed puts out the credit crisis fire, we may be left with inflation as the water damage.

Let's look at dates, first. Conventional wisdom says that the first half of 2009 will be—to cut through the technical terms—ugly. The second half of 2009 is likely to improve, but only according to the optimists. A broader population of economists looks for recovery around 2010 or 2011. Extreme pessimists predict a repeat of the Great Depression.

Now let's look at numbers. In the stock market (not to be confused with the economy), extreme pessimists predict an L-shaped recovery, so named for the shape it would take on a graph. Basically, this means they expect essentially no recovery, much like what happened with the Japanese market in the 1990s. Optimists hope for a V-shaped recovery, down and right back up, like American markets after the crash of 1987.

Conditions probably don't support either scenario. If you examine price/earnings (P/E) ratios and average the whole market since 1925, when they started keeping such detailed data at Standard & Poors (S&P), the average comes out to around 14. Since World War II, the average comes to around 16.1. In 1989, the Japanese Nikkei index was 40,000 with a P/E ratio of over 100, making it obscenely overvalued. In the United States, we're already below the long-term ratio of 14 in the S&P 500, although we're not as low as the historically low P/Es of 1979 (a bit over 7). On the other hand, recessions tend to whack the E side of the P/E ratio, so we are likely to see P/E numbers climb as the full impact of the recession becomes apparent.

Inflation may eventually be a risk. The government and the Fed have pumped billions of dollars into the market. This is not causing inflation at the moment because they're just replacing dollars that are being sucked out of the money supply by deleveraging—which is just a fancy term for paying down loans we now wish we hadn't taken out.

Once the Fed puts out the credit crisis fire, however, we may be left with inflation as the water damage. Removing the extra dollars from the money supply in an economic recovery will be more difficult, politically, than it was to pump them in. Another risk may be Treasury bonds. In their stampede to safety, some investors have become so focused on credit risk (the risk of something going bust) that they're currently ignorant of inflation risk (the risk that the purchasing power of the principal will erode over the next 30 years) and interest-rate risk (the risk that the bonds purchased will drop in value because they end up paying less than the current [higher] rate of interest for the same type of bond). A regression to normal—the average long-bond rate over the past 80 years or so is around 5.4%—could provide U.S. Treasury bond investors with double-digit losses in their portfolios.

So where does that leave us? The stock market is a leading economic indicator, so the S&P 500 may well start going up even as the economy is bottoming out. Having a contrarian streak, I'm starting to feel optimistic, particularly when seeing suggestions that we justify low stock valuations by replacing conventional valuation measures, which is just what we did when things got distorted on the upside. (Remember valuing companies by the number of clicks on their Web sites?) When *The New York Times* runs headlines in the "Fundamentally" column like, "25 Years of Conventional Wisdom, Down the Drain" (January 3, 2009), you know better times lie ahead.

The views in this commentary do not necessarily represent those of the firm and are not intended as specific investment advice.

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ABCs OF SIMPLE IRA PLANS

by Stephen E. Molyneaux

A Savings Incentive Match Plan for Employees (SIMPLE) IRA plan is an IRA-based plan that offers small employers a simplified method to make contributions toward their employees' retirement and their own retirement. A wide variety of small businesses (including C or S corporations, partnerships, and sole proprietorships) and their employees may benefit from the numerous advantages a SIMPLE IRA plan offers.

A SIMPLE IRA plan is an employer-sponsored plan much like 401(k) and 403(b) plans, but it offers simpler and less costly administrative rules and responsibilities. The SIMPLE IRA plan, like the 401(k), is a salary reduction retirement plan, which means participants select a contribution amount to be deducted from their salary on a pre-tax basis. Like other salary reduction contributions, these deductions are subject to Social Security, FUTA, and Medicare.

In general, a SIMPLE IRA plan is available to any business owner with fewer than 100 employees who is not currently maintaining another employer-sponsored retirement plan such as a 401(k), Keogh 403(b), or SEP-IRA. Contributing to a SIMPLE IRA plan can help an employer save on taxes because contributions made on behalf of plan participants are generally deductible as a business expense.

A SIMPLE IRA plan gives participating employees the ability to direct their own investments: All contributions to a SIMPLE IRA plan are directed into each participant's own separate SIMPLE IRA and each participant then makes and executes all investment decisions within his or her own account. Another great advantage is that all contributions are immediately 100% vested. Moreover, employees benefit from the savings a SIMPLE IRA plan offers in terms of administrative expenses and fees, particularly when compared to 401(k) plans, which often have hidden costs.

All contributions to a SIMPLE IRA plan are immediately 100% vested.

Requirements

Once the business owner decides to establish a SIMPLE IRA plan, the employer will need to make it available to all employees who meet the following criteria:

» The employee must have worked for the employer for at least two years.

» The employee must have earned at least $5,000 in compensation from the business during any two prior years.

» The employee is expected to earn $5,000 for the current year.

Once established, the plan requires employers make a minimum contribution to all employees' accounts. The employer can make the contribution in the form of matching funds or a fixed, non-elective contribution. The matching fund matches the employees' contributions dollar for dollar, up to specific IRS limitations. With a fixed, non-elective contribution, the employer may contribute a flat 2% of compensation for each employee regardless of the amount the employee contributes, again following specific IRS guidelines. Employers are free to switch between contribution methods each year as long as certain legal requirements are met for the timely notification of all participating employees.

Adapted from The Hanover Advisor, *Fall 2008.*

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QUICK FACTS

for SIMPLE IRA Plans

- A SIMPLE IRA plan offers small employers and their employees a simplified pre-tax retirement plan.
- An employer offering a SIMPLE IRA plan must have fewer than 100 employees.
- Employees may not make regular contributions to their SIMPLE IRA. Only payroll contributions are allowable.
- The employee contribution limit for 2008 was $10,500. It increases annually by the cost of living.
- A catch-up provision is available for participants older than 50.
- SEP IRAs, traditional IRAs, and most other retirement plans cannot be rolled over into a SIMPLE IRA.
- The plan requires a certain minimum contribution from the employer. See IRS code for exact limitations.
- All contributions to SIMPLE IRAs are directed into each participant's own separate SIMPLE IRA.
- The employee makes and executes all investment decisions within his or her own account.
- SIMPLE IRAs have fewer administrative fees and responsibilities than other retirement plans.

Relationship MANAGEMENT

When you need back office support, the Relationship Management department is eager to help. Relationship Manager Melissa Wade recently spoke with *FREE* about why her team welcomes the daily challenges brought by the ever-growing field force.

Kaitlyn Crawford Melissa Wade Jennifer Ziemacki Jon Michaels

FREE: **What is Relationship Management?**
MELISSA WADE: Our job is to service our brokers, managers, and vendors with any needs they may have. We are the people to go to when you don't know where to go—the point of contact, the go-to department for any and all issues within the APFS infrastructure.

FREE: **How was the Relationship Management department born?**
MW: Chief Operating Officer Dean Bruno started it off doing everything himself, including obtaining selling agreements and sustaining our brokers. I soon came in thereafter and took the selling agreements off his hands. We were really starting to grow at that time. There were so many new affiliated colleagues and employees and every broker needed to know where to go for things. So, they started coming to us. They trust us to help them with their needs and get things done properly.

FREE: **What specifically is your role within the department?**
MW: What *isn't* my role? As a manager, I delegate and spread out all of the assignments and tasks throughout the department. I make sure everyone is kept in the loop and completes their tasks in a timely manner and proper order. I keep all our prospective reps' profiles up to par and oversee the distribution of the weekly newsletter, *The Independent*. I set up all the vendor meetings that take place at the APFS home office and work with other departments at APFS to accomplish a prospective colleague's transition in a timely manner. I also help coordinate the APFS National Conference and managers' meetings each year. I also handle all requests to open up test windows and affiliation with American Portfolios Advisors. It's a lot of follow-up work, but overall, a little bit of everything.

FREE: **What management style do you use?**
MW: I don't know about a style, but there is something I learned from one of my professors that I always go by, and that's, "Don't ever ask anyone to do anything you wouldn't do yourself." I abide by that every day.

FREE: **You recently obtained your Series 7. Congratulations! Why was that important for you?**
MW: It was a great way to help me learn more about how this business works. I wanted to get my 7 so I could better understand my job. I also knew that taking my exams would help me get further with the company, which is really where I want to be.

FREE: **Who makes up your department and what are their responsibilities?**
MW: In Relationship Management we all work as a team to get the job done. There's Jon Michaels, who started in June of 2007. He handles many of the calls from our vendors and affiliated colleagues. Jon also handles all of our selling agreements with Pershing, mutual funds, variable annuities, and alternative investments.

Jennifer Ziemacki started in August of 2008. She also takes calls from our vendors and affiliated colleagues. Jen sets up all non-registered assistants with log-ins and passwords to the APFS site. She also helps transition prospective colleagues and processes our selling agreements.

Kaitlyn Crawford, our newest addition, takes calls as well, but also provides content for *The Independent*. Kait helps Jennifer process the selling agreements and adds much of the content to the APFS website.

FREE: **Are your Relationship Management colleagues interested in getting licensed?**
MW: Jon is scheduled and Jennifer will eventually start. It's a ripple effect. Once one person starts...

FREE: **As a department, what's the scope of the issues you handle?**
MW: If we handled the same issues every day, our jobs would be boring. But for the most part, our affiliated colleagues contact us for a variety of different issues, ranging from where to find something on the APFS broker website to who they should contact to get business processed. We provide information about selling certain products and help obtain log-in and passwords to the APFS site and NetExPro. We are also problem solvers, the liaison between the back office and field force. If a colleague has a problem, we'll work with all departments to make sure it gets resolved. I would say about 50% of our day is spent troubleshooting. Additionally, we oversee all aspects of a new colleague's transition to APFS, from the moment we get their confidential questionnaire to the moment their last account is transferred.

FREE: **How do you approach problems with affiliated colleagues? How do you maintain diplomacy?**
MW: I always hear both sides first. Then I try to find a middle ground. Maintaining diplomacy and finding solutions isn't hard when you know your job. It helps you to tackle the situation and explain why things are done a certain way, which ultimately helps everyone be more accepting of a solution. If you are knowledgeable and correct, you earn your colleagues' respect and they are more willing to accept your answers to their problems.

FREE: **What APFS services do our affiliated colleagues use most?**
MW: Our technology is huge. Aside from the STARS management system, the fact that they get Albridge for free is a big draw. We offer the best there is in technology, from annuity intelligence reports for variable annuities to the APFS online enterprise print management center, where colleagues may order business cards and stationery. Our reps have really been taking advantage of many tools that APFS offers.

> "Don't ever ask anyone to do anything you wouldn't do yourself. I abide by that every day."

FREE: **What do you think keeps reps affiliated with APFS?**
MW: Our culture and the ease with which we do business keep reps at APFS. When you provide people with good service, when they can call us up and get an answer pretty quickly, it keeps people happy and I think as a result, they then feel a loyalty to their company. They aren't just a number here. Reps give us ideas and we act upon them. I also believe that everyone is convinced by Lon Dolber's vision for the future of this company. They feel safe and that they will not be sold to an insurance company down the road.

FREE: **To what extent do you work with our focus partners?**
MW: Relationship Management is in close contact with our focus partners. They call us with their new sales ideas and we work with them to find new and interesting ways to target our brokers. They are always looking for the best, most effective ways to contact our affiliated colleagues without driving them crazy! To that end, I help get them into Studio 454, our in-house, web-based broadcasting studio, where they can record interviews or sales presentations and reach hundreds of colleagues in branch offices across the country. I also coordinate with our vendors for their attendance at the APFS National Conference. We've also recently been doing a lot of analytical work for our focus partners, running sales and marketing numbers for them through Albridge so they can see where they are ranked among other companies.

FREE: **Are there any misconceptions about Relationship Management?**
MW: I have to say we have a pretty positive aura about us. Rarely do we get complaints because we are very thorough in what we do. But, I would say if there are any misconceptions about our department, it would be that people don't think they should be contacting us when they should. More people need to come to us. Sometimes I think some are afraid to call because we are busy, but you know what? That's our job. We may be one of the busiest departments, but I think that people work best that way.

FREE: **How is the department evolving? Where is it going?**
MW: That's a hard question because our company is growing so fast and as the company grows and changes, so does our department. We are evolving as we take on more responsibility each day. In the last couple of months, we've transitioned so many new colleagues, ensuring that everything comes together properly and the transition process goes as smoothly as possible. I think that Relationship Management is the face of APFS. We are and want to be on the front lines with the firm's affiliated colleagues and I think our senior management has a lot of confidence in us.

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Joe

Flight instructor.

Financial advisor.

Ski coach.

Joe Birkinbine believes in diversification.

Interview by
Terri D'Arrigo

Photos courtesy
of Joe Birkinbine

FREE: **How did you get into finance?**
JOE BIRKINBINE: My father was a representative with Lutheran Brotherhood for 15 years. It's a fraternal benefit society, and he did primarily life insurance. I enjoyed his dinnertime conversations about work, and in 1995 I decided to join him. We were a father-son team for a year and a half. He was a great mentor and coach, particularly for someone starting out in the business. When he retired, I continued to run the office for another year and a half.

FREE: **Tell us about your career.**
JB: I didn't start off in finance. After college, I moved to Steamboat Springs, Colo., from Madison, Wisc., to pursue a career in the ski industry. I had longed to be a professional ski patroller since I was 16, and in 1984, I met that goal. I still volunteer as a coach for the ski club in town, and I coach first- and second-graders.

FREE: **You went from skiing to finance?**
JB: Not exactly. I'm also a flight instructor.

FREE: **How did you get into that?**
JB: In my sophomore year in college, I saw there was a pilot ground school class in the evenings that could be used for three general education credits. I used to go for penny-a-pound airplane rides when I was a kid—you go out to the airport and stand on a scale, and one of the local pilots would take you for a ride. By the time I got to high school I was begging for rides in my neighbor's plane, so when I saw the college class, I thought it would be interesting. After four or five classes, the instructor said I should go out to the airport for an introductory flight. At first I was 80% terrified and 20% having fun. The next week I was 75% terrified and 25% having fun. It went from there. Eventually I got my license. I got my commercial license, my multi-engine rating, my instructor's license, then instrument instructor's rating. Finally, I received my airline transport pilot rating, or ATP. That's how I got the name for my financial business, ATP.

FREE: **Sounds like quite an adventure. Why did you decide to go into finance from there?**
JB: Once I had been married for a couple of years, I realized that those careers [ski patrol and flight instruction] were not enough to support a family, so I studied for my insurance and securities exams. Then I joined my father back in Wisconsin.

FREE: **Did you miss Colorado and the outdoor life?**
JB: Yes. In 1999 my wife and I began to really miss the mountains, so I became an investment hub manager at a bank back in Steamboat Springs. I was there for three and a half years, and in April 2003 I decided it was time to go independent.

FREE: **What prompted the decision?**
JB: Bank politics were not blowing in the right direction for me and I needed to be able to call my own shots. It was a big step with lots of fears, and there was a one-year non-compete clause in place that I had to be careful about. At the bank I had 400 clients and about $7 million under management. I left on a Friday and on Monday I had a new phone and a new office and I couldn't call those 400 people. I had to start from scratch and shake bushes to try to find assets for my new shop.

FREE: **How did you make the transition?**
JB: I called Mike Diemer. He used to be part of Lutheran Brotherhood and my family knew of him as a supervisor. He walked me through the whole transition. We were with a broker/dealer in Denver and one day there was a memo that said it had been sold. I called Mike and asked if this was good or bad, and if there was a new broker/dealer that could be the right fit for the group. Mike put in some long hours interviewing broker/dealers and he chose American Portfolios in April of 2007. I went with him because I wanted to keep the continuity of my OSJ.

FREE: **That's quite a difference from flight instruction.**
JB: People often say that, but flight instruction and finance have three key things in common. First, there's an element of trust. A student has to trust the instructor, even with the student's life. It's the same with advisors. I used to think clients trusted me with money, but it's more than that. It's with their lifestyle upon their retirement.

FREE: **That's a big responsibility.**
JB: It is. So second, I have to make sound recommendations and be able to evaluate a situation accurately. After a student has about 15 hours of flying, I evaluate their skills, judgment, and confidence and if I feel they can fly alone, I say, "let me get out and you fly solo." I have to know I'm doing the right thing because if it doesn't work out, there are all kinds of repercussions. I'm actually more nervous about it than the student flying solo! It's the same with advisory. I have to evaluate a client's job, life insurance, 401(k), estate planning needs, college savings requirements, and so on. When I make recommendations, a lot is at stake.

FREE: **You mentioned a third similarity.**
JB: Yes. I have to teach students not to panic. We're constantly going through fake emergencies so they will be prepared for the real ones. It's the same with planning financial contingencies.

FREE: **For times such as these?**
JB: Exactly.

FREE: **How are you keeping your clients calm in the midst of all the current market volatility?**
JB: I do a lot of service work. I make a lot of calls. Clients want to know what's going on and they ask what they should do. They just need to hear from their advisor. I address their fears and look at their position, and try to make sure they have at least seven to nine different asset classes in their portfolios. I think it's important to have a well-diversified book of business, and it has paid off. Some of my clients are only down two or three percent.

FREE: **What's your current mix of business?**
JB: I have a mix of thirds: It's about one-third mutual funds and stocks, one-third insurance products and annuities, and one-third not correlated with Wall Street, such as Wells REIT. I currently have about $20 million in assets under management. I need to double that to hit a comfort zone, but that's what puts the fire in my belly.

FREE: **What do you like about being affiliated with American Portfolios?**
JB: I like the freedom of being independent. I like that I can sell more diversified products.

> **I used to think clients trusted me with money, but it's more than that. They're trusting me with their lifestyle upon their retirement.**

FREE: **What are your words of wisdom for advisors who are thinking about going independent?**
JB: You have to be able to sell yourself. Once you can sell yourself, your clients will be eager to listen to your recommendations.

FREE: **What are your plans for the future?**
JB: During the first quarter, I'm doing what I call my "second-opinion campaign." I'm trying to contact as many people as I can to ask if they need a second opinion to see if they are being diversified correctly. I'm asking clients to refer me more diligently to friends and colleagues who may be in need of second opinions. Overall, this is a career of patience. I asked my dad what the secret of his success was and he said, "Don't ever quit." I've thought about it, myself, but I stick with it for the personal gratification and the huge potential. I believe that if you do the right things, the money will come.

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FUTURE > THE TECHNOLOGICAL DIVIDE AMONG GENERATIONS < PAST

by Rebecca E. Dolber

The emergence of communication technology has created the greatest cultural change in the workplace since the Industrial Revolution. Much as major changes in manufacturing and production in the early 19th century influenced nearly every aspect of daily life, advancements in technology have made possible entirely new forms of social interaction, activity, and organization. Likewise, the efficiency that technology has brought to the financial services industry has revolutionized the day-to-day tasks of those savvy enough to take advantage of it.

The current workplace is comprised of employees from four generations—the Traditionalists (born between 1900 and 1945), Baby Boomers (born between 1946 and 1964), Generation Xers, (born between 1965 and 1981), and Millennials (born after 1982). Each generation has had a different amount of exposure to technology. Traditionalists were raised without modern technology. Baby Boomers birthed the computer. Gen Xers were the first to be computer literate and Millennials grew up with computers in their homes. Such diverse technological backgrounds foster different styles of working and present challenges in interoffice communication.

Larry Rosen, Ph.D., a research psychologist, computer educator, and past chair and professor of psychology at California State University, Dominguez Hills, recognizes the generational differences in the workplace. In his article, "Understanding the Technological Generation Gap" (*The National Psychologist*, March-April 2004), he writes, "Gen Xers have little tolerance for time-intensive activities and feel strongly that meetings are a waste of time. They want their boss to give them a job and stand back and let them do their work."

Traditionalists, however, welcome the help, because they've had to. When they entered the work force, the technology did not exist. They used typewriters instead of computers and books instead of the Internet. Traditionalists have had to learn the technology on the job, late in their careers.

The Millennial generation has been exposed to technology since birth. Because of it, Rosen notes, they are natural multi-taskers. They are able to juggle phone calls, surf the Internet, and send instant messages to their friends, all while their computer speakers spew XM radio into their cubicles.

Ron Wyche, Technology Support Analyst at American Portfolios and a Baby Boomer, finds himself somewhere in between. "When people tell me they're too old to do something that involves the computer, I tell them they're talking to the wrong guy—I'm the same age." Wyche is the go-to person for the firm's technology and network-related services. He handles technical questions about PC hardware components and business software for the Holbrook facility. He fields 15 to 20 calls a day from affiliated colleagues in the field and coworkers in the home office. "I find that technology is making work easier. Understanding how to use it is presenting the difficulty," he says. "People want to move ahead, but they don't want to change."

Wyche's colleague, Systems Analyst John Rodriguez, agrees. "People want to do what they do best. The older generations may have a harder time grasping the concepts, while those younger don't feel the difficulty," he says. "But ultimately, anybody young or old can learn."

The Evolution of Efficiency
As technology evolves, those using it become more adept with it and accomplish tasks faster. Many in the workforce remember when a 40-hour work week was filled with things that can now be done in minutes. Whether a task involves alphabetizing a spread sheet with Excel or running reports from Albridge, the immediacy that comes with modern technology allows those who use it to be more efficient. In turn, those most comfortable with

> The key to bridging the gap is to bring employees together to create functional work teams that recognize individual weaknesses and use individual strengths.

technology—Gen Xers and Millennials—see the ability to do more in less time as a way of maintaining reasonable work hours.

As a company that prides itself on technology, American Portfolios offers a variety of services designed to streamline business, such as Albridge, DST Vision, Redtail, and the homegrown system, STARS. Features such as STARS' automatic imaging and archiving of new account forms simplify financial planning and leave planners with the time to do what they do best—give investment advice. However, the majority of the APFS affiliated colleagues are Baby Boomers. Does technology like STARS help them, or is it just one more thing they have to learn?

Manager of Representative Services Jared McGill, who oversees the training of new affiliated colleagues on the STARS system, says that most questions about the system come from Baby Boomers and Traditionalists.

> Older generations can't turn a blind eye to the change and younger generations have to be the ambassadors of technology.

"Once the purpose and idea behind the feature is explained, they can do the task. It just needs to be relayed conceptually," he says. He added that younger colleagues tend to get more excited about new advancements than their older coworkers because their familiarity with technology allows them to grasp new ideas immediately. "Younger people get it. Older people get assistants."

Cathy Marshall, former Vice President of Human Resources, North America for *Reader's Digest*, takes full advantage of the flexibility new technology offers.

"Between meetings, the immediacy of having someone physically in your office, and the constant ping of emails coming through, there's a steady stream of interruption," she says. "Technology has enabled me to work from home at least one day a week. Home was the best place for me to be creative, innovative, and focused. It alleviated the stress of travel and, frankly, made me more productive."

As a working professional and Gen-Xer, Marshall has had to adapt to many advancements over the years. "It was a progression for me in some ways, but I found out what was hot more from networking than I did from reading up on things."

Closing the Gap

The technological divide is, in essence, another form of generation gap. According to Marshall, the key to bridging this gap is to bring employees together to create functional work teams that recognize individual weaknesses and use individual strengths. She adds that becoming knowledgeable about generational diversity and embracing it as neither right nor wrong is the first step, but it's a step that must come naturally and can't be forced.

APFS Transitions Associate Carl Kirchner, a Millennial, agrees. "[APFS Compliance Associate] Martin Wendel has been in the industry for a while. It's nice to know I can go to him and say, 'Look, here's my situation. I know you've been here before. What did you do then, what worked, and what would you have done differently?' He has the experience to share."

Kirchner noticed that if he took the time to walk into a Baby Boomer's office, he or she would not only be more willing to answer questions, but would do so more thoroughly. "If you're face-to-face, you get the story, the bigger picture that helps you understand the situation better. When you email someone [as with Millennials and Gen Xers], you get the informal answer."

Anne Antunovich, Director of Accounting and Finance at APFS and a Baby Boomer, leads a department comprised of workers from different generations "I find myself asking them how I can gather information from our systems so I can present it better. My younger colleagues know the mechanics of how to use the technology, whereas I know the reasons why we need to be using it."

Bridging the gap has its challenges, says Marshall. "Every day there's a new space in the electronic sphere and it's hard to keep up." Nonetheless, she stresses that older generations can't turn a blind eye to change and younger generations have to be the ambassadors of technology.

"Every day, more and more Traditionalists and Boomers plug in. They are learning through their kids and their grandchildren," she says. "Although they may be resistant to technology initially, most learn to appreciate it and soon adapt to the expediency that it brings."

She adds that younger workers should remember that technology isn't everything, and that strong relationships are still the foundation for good business. "My advice to Millennials? Pick up a pen sometimes! I love getting a thank-you card instead of an email. Those genuine ways of expression always touch someone. It transcends the same in the workplace as well."

Bob Clayton

Bringing Business Home

FOR AFFILIATED COLLEAGUE BOB CLAYTON, THE BEST BUSINESS IS LOCAL.

STORY & IMAGES BY TERRI D'ARRIGO

The first thing you notice about Bob Clayton is that he's tall. Very tall. If you're 5'6" in two-inch heels, when he opens the front door of his late 19th-century home, you'll find yourself bending your neck to look up at him.

If he wanted to, Clayton could use his height to be intimidating, but he's not that kind of guy. Instead, he's all about building trust and forging relationships.

"Have a seat," he says, nodding toward the front of the house, where his cherry wood desk looks out onto a yacht harbor that leads into Long Island's Great South Bay. "Can we get you anything? Coffee?"

His graciousness meshes with the stand-up piano, overstuffed sofas, big-screen TV, and rose and gray marble fireplace to give new meaning to the term "home office."

"I've had the office here for about four months now, and being here in my home is very comfortable for me," he says. "Last night my family was watching a movie that I didn't want to watch, and I sat here at my desk for a couple of hours. Plus, there's no commute."

He nods and smiles conspiratorially at that last tidbit. Having grown up on Long Island, Clayton knows a thing or two about traffic. As a youth in Lloyd Harbor on the island's north shore, he would travel to Bay Shore on the island's south shore for Sunday school. Like many Islanders, he went to college out of state—he chose Florida—but he found that he missed the area, its food, its people, and its lifestyle, if not the bumper-to-bumper snarls on the Long Island Expressway and the Southern State Parkway. Now he lives and works in Brightwaters, a waterfront village just up the street from the parochial school where he learned his catechism. In fact, he coaches the local 7-9th-grade boys' CYO basketball team.

"We've been in the area for 15 years now and we've seen a lot of changes," he says, referring to the economic ups and downs of Bay Shore. The addition of two nearby malls in the late 1970s had sucked commerce out of the downtown, and the social scene right along with it, but in recent years the area has seen a slow rejuvenation. "They've done a nice job with the town here. If you like good barbecue, try Smokin' Al's right on Main Street."

Clayton likes to keep things local, and once you start talking business with him, it soon becomes clear that this preference applies to his work as well. His career began with family, in his cousin's John Hancock office. He worked there for 13 years, much longer than he expected, largely because of his cousin's influence.

"It's a great training ground and learning experience," he says. "But if it wasn't for him, I probably would have been there about five years. He ran a great office, and when I returned to the area he brought me in to teach me the business."

Once Clayton became established and had a firm foundation in the industry, he began to feel the pull toward independent advisory, but he worried about the effect striking out on his own would have on his clients.

"I felt that if I was going to make a change, it needed to be seamless for them. When I left John Hancock, they felt I was leaving the company," he says. "At that point, I established Clayton Financial so that regardless of who I was [affiliated with], my clients would know my company. If I wound up making a change, it would be all back office and behind the scenes, and they would always have me and my company to represent them."

"A lot of companies like to use the term 'open architecture,' but that's not always accurate."

Lured by the promise of open architecture, he became affiliated with Guardian. However, there were drawbacks.

"They said they were open architecture, but now they are enjoying the renewals of my business," he says. "I have more than 20 years in the industry and someone else is enjoying the renewals and the product of my work and efforts. That speaks to why it's beneficial to be independent."

A Two-Way Main Street

Not one to take a move lightly, Clayton did his homework before affiliating with American Portfolios.

"I went to vendors in the industry and over a one-year period I asked them. 'If you were to go on your own and be independent, which company would you go to?' Hands down, they said American Portfolios."

Then he met American Portfolios Chief Executive Officer Lon Dolber at a conference.

"From that first conference, he was very available and very gracious. He was generous with his time and his conversation. All of our discussions were about what you hear other vendors speak of—open architecture," he says. "A lot of companies like to use the term 'open architecture,' but that's not always accurate."

From there, it was a matter of trust. "I found that APFS truly does have the open architecture," he says. "You decide which companies you want to use, which vendors are appropriate, who fits with your clients. It was very apparent to me right from the start."

In December 2007, he became an affiliated colleague and got right down to business. "I had so many products at my disposal, and if one wasn't performing, I'd change models. Some of them have done better than I expected, and others have been easier to manage than I expected."

Not that it has been completely smooth sailing.

"The biggest challenge with the transition was the daunting task of reorganizing all of our systems. When I transitioned, I started with a new service company, E-Money, as well, so I was changing from one platform to another," he says.

He notes that the back office support he has received from APFS has been invaluable. "My concerns about client management were alleviated greatly by STARS and Albridge, and American Portofolios just has a great handle on all of that," he says. "Say you have the best car on the market. If you don't know how to use it, it won't do anything for you. APFS has given me the ability to take advantage of and understand the systems they have, and with conference calls, they are always available."

What cemented his loyalty, however, is the commitment APFS has to community service. Impressed with the firm's involvement in World T.E.A.M. sports through Dolber, in February of 2008 Clayton bought a bicycle and trained for the Face of America Bike Ride. The event paired disabled veterans with able-bodied participants on a two-day ride from Gettysburg, Pa., to Bethesda, Md.

"When you see people like Lon who have a passion for things other than themselves, it really speaks volumes for who they are and everything else they do," he says.

What's Important

It's that sense of world-as-community that Clayton tries to bring to his business, and it's another reason he enjoys working out of his home. "That, and when you have two teenage boys, it's good to have Dad around the house." To that end, he doesn't mind if clients call his house number or call him on the weekend. "I'm there to help them."

Clayto

USINESS HOME

LLEAGUE BOB CLAYTO

SINESS IS LOCAL.

MAGES BY TERRI D'ARRIGO

"I love to involve my clients' families because they have the client's best interest at heart in listening to my ideas."

More than half of his clients are retired and most of them are local—business owners, families, nearby residents he has done charity work with, and people in the community. All told, of the assets he manages, about 55% is managed money, 20% insurance, and 25% annuities.

As he discusses his mix of business, he's quick to put a human face on it. "When I look at my clients, it's not just about their investments. It's also about what is appropriate for them where they are in their lives. It's not just their future dollars such as inheritance and Social Security, or their real estate transactions, but also the possibility of living with their children," he says. "I love to involve my clients' families because they have the client's best interest at heart in listening to my ideas."

Clayton learned years ago that becoming a part of his clients' lives gives him a sense of personal fulfillment. In 1999, when John, a dear friend of his, passed away suddenly, Clayton was instrumental in helping the family cope.

"I went to their house and sat with his wife, and when his daughters came home from the funeral home, they said that the funeral home needed $13,000 by the end of that week," he says. "His wife turned to me and asked, 'What should I do?'"

"Get the blue checkbook John kept in the file cabinet," he told her. "There's $35,000 in that account. Spend it all if you need to. Don't worry about anything. We'll get together in the coming weeks and months and put it all in order for you."

As Clayton relays the tale, he pauses for a moment. "I was glad I could bring her that peace of mind, that she would be okay and had nothing to worry about," he says. "It's the idea that someone can trust me. I can't imagine the other side of that coin, with [Bernard] Madoff and the $50 billion Ponzi scheme."

To Clayton, Madoff's apparent betrayal is unforgivable. "When you talk about retired people and the elderly left with broken promises and empty bank accounts, and what their lives will be like, I think the sentence for that should be life imprisonment," he says. "It's disgusting."

It also illustrates the need for the financial industry to police itself, he says. "When I look at something like that and I know that my clients can call me and know that I am watching out for them, and no one is going to call them up and get them involved in a stock scheme or a scam, that's what's important. That's the responsibility every one of us brings to the table right now, and now more so than ever before."

Whether it's helping a grieving family through a tough time or fostering an open line of communication with the firm, for Clayton, it all comes down to rapport. "It's my relationships within the industry and with my clients that have brought me the success I have today," he says. "It can be easy to get wrapped up in the tasks of your day, but the relationships are what's important."

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IRREVOCABLE LIFE INSURANCE TRUSTS

Eva M. Victor, J.D., LL.M.

Life insurance is a highly cost-effective and tax-efficient method of funding for estate liquidity and other planning. In addition, as a wealth accumulation or a wealth preservation vehicle, life insurance is attractive because it offers tax-deferred accumulation of cash within the policy; tax-favored access to policy cash; and death proceeds *free* from income tax. Life insurance can play a vital role in many aspects of estate planning by providing for estate liquidity, funding a business succession plan, and providing an estate equalization bequest, a charitable bequest, or even a family legacy.

The Irrevocable Life Insurance Trust

Life insurance plays a pivotal role in estate planning. The question then becomes how to best structure policy ownership so that liquidity is available when needed, undiminished by taxes. Personal ownership of the policy permits the policyholder to maintain direct control over the policy, and provides the policyholder with direct access to policy cash values for lifetime needs. However, the proceeds will be included in the client's taxable estate if policy ownership is maintained until death or transferred within three years of death.

Alternatively, third-party ownership of the policy by your client's adult children (or other heirs) would exclude the proceeds from the client's taxable estate. However, the policyholder then relinquishes complete control over the management of the policy.

The irrevocable life insurance trust (ILIT) is often the preferred alternative for individuals who wish to exclude the insurance from their taxable estates, yet maintain at least some measure of indirect control over the management of the policy through the vehicle of the trust.

Establishing and Operating an ILIT

An ILIT can apply to either a single life policy insuring the client's life or a survivorship policy co-insuring the lives of both your client and his or her spouse. The mortality costs in a survivorship policy are often significantly lower than comparable coverage in individual policies. The ILIT is designated the owner and beneficiary of the policy.

The client then appoints a trustee to manage the policy, in trust, on behalf of the trust beneficiaries, (typically the client's family), according to instructions the client wants incorporated into the trust. This will give your client some measure of indirect control. The client may also transfer an existing policy to the trust, and the trust may receive and manage other assets in addition to the life insurance policy.

During your client's lifetime (or the lifetime of your client and his or her spouse), your client can give the trustee the authority to access the policy cash value through withdrawals or loans that can be used to meet the needs of the trust beneficiaries.* Then upon the policyholder's death (or the death of the surviving insured), the trust receives the death proceeds to manage on behalf of the trust beneficiaries, typically children, grandchildren, or other heirs.

Estate Tax Advantages

As the insured and the grantor of the trust, your client would be excluded as a trust beneficiary and trustee. In addition, the trust is irrevocable, which means its terms cannot be subsequently modified. This will ensure the value of the death proceeds (as well any other trust assets) are excluded from your client's taxable estate upon his or her death.

Note that if your client transfers an existing policy to the trust, he or she must survive three years following the transfer in order to exclude the proceeds from the taxable estate.

The trust should also be designed in a way to exclude the insurance proceeds from the spouse's taxable estate, particularly if he or she is a co-insured or is included as a trust beneficiary. Specifically, if the spouse is a co-grantor of the trust, he or she should be excluded as a trust beneficiary and trustee. If

the spouse is a co-insured, he or she should be excluded as a trustee and any beneficial interest he or she has in the trust should be limited to a "life estate," meaning income distributions and discretionary distributions of principal for limited purposes (at an independent trustee's discretion).

If the spouse is neither an insured nor a grantor, then he or she may be included as a trust beneficiary as well as trustee, provided his or her interest is limited to a "life estate."

With proper trust design, the trust will receive a death benefit free of estate taxes upon the policyholder's death (or the death of the surviving insured). This benefit can be used for a wide range of purposes, including estate liquidity, estate equalization, creating a family legacy, or even a "wealth replacement" bequest in coordination with a charitable bequest.

Gift Tax Advantages

The ILIT is the owner and beneficiary of the policy. If the trust does not have sufficient income or resources to pay the policy premiums, your client (or others) may make contributions to the trust to enable the trustee to do so. The trust contributions constitute gifts for federal gift tax purposes, but contributions may be sheltered from gift tax with the annual exclusion or unified credit exemption.

Note that if your client assigns ownership of an existing policy to an ILIT, this will constitute a gift based upon the cash value of the policy at the time of the transfer. However, the transfer can be sheltered from gift tax with the annual exclusion or unified credit exemption. If the trust includes your client's grandchildren (or more remote descendants) as beneficiaries, it may be necessary to protect the trust property from the generation-skipping transfer (GST) tax, through allocation of the GST tax exemption to trust contributions.

Income Tax Advantages

Policy withdrawals up to tax basis (premiums paid) are income-tax–free. Policy loans are also income-tax–free regardless of amount, provided that the policy is not a modified endowment contract. Also, there is no taxation on the inside build-up of cash values within

the policy. Consequently, policy cash value can be accessed by the trustee of the ILIT on an income-tax–favored basis. Then, upon the policyholder's death (or the death of the surviving insured), the proceeds are received by the ILIT tax-free, to be administered on behalf of the trust beneficiaries.

Incorporating Flexibility

The ILIT has become a standard element of estate planning. Yet some individuals may be wary of them, thinking "irrevocable" means "inflexible." The trust must be irrevocable to keep the insurance out of the estate, so the grantor may commit to a plan that in later years may not be in accord with depository intent at that time.

A number of things can be done to structure a flexible, dynamic, irrevocable trust without compromising a trust's irrevocable status or risking inclusion of the proceeds in the taxable estate. Under certain circumstances, a nongrantor spouse can be included as a trust beneficiary (as discussed above). The trust can also direct that the ex-spouse cease to be a beneficiary or trustee in the event of a divorce.

A limited or special power of appointment is a powerful tool in building flexibility into an irrevocable trust. It can give a trust beneficiary (such as a spouse) the ability to override the typical per stirpes distribution and redirect the trust assets to specific parties in the event of changed circumstances. Finally, the trustee may even be given the power to terminate the trust early or upon a triggering event and distribute the policy to a spouse or other beneficiaries.

Alternatives

Depending on your client's circumstances, needs, and planning objectives, you may wish to consider various alternatives to the traditional ILIT that may afford greater flexibility, access and control, and may provide other tax and non-tax advantages. Included among these alternatives are:

- The Spousal Access ILIT
- Credit Shelter Trust Funding With Life Insurance
- The Survivorship Standby Trust
- Dynasty Trust
- Split Dollar Life Insurance Arrangement

As with all aspects of estate planning, discussing your client's needs with your client will help you determine the best options.

*Policy loans or withdrawals may reduce the remaining cash values and death benefit.

Ms. Victor is a tax attorney and consultant with the Penn Mutual Life Insurance Company. She may be reached at victor.eva@pennmutual.com.

This information is based on Penn Mutual's understanding of current laws and assumptions, which are subject to change.

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ESTABLISHING A

CLIENT ADVISORY BOARD

Given the increase in competition, it's a good idea to look for ways to fortify your relationships with your best clients and continually demonstrate the value you add. One way to accomplish this is by establishing a client advisory board to help you get useful feedback, and then acting on that feedback to strengthen your practice.

A HOST OF BENEFITS

Client advisory boards can take many forms, but they're typically comprised of a small group of your most important clients. They can provide valuable, candid input on their experience as your clients. Soliciting unbiased feedback from this group provides a number of important benefits:

- *Feedback on "big picture" items.* Whether you're looking to develop a long-range business plan, change your fee structure, or add new services, your advisory board can provide a reality check on major items that could affect your business in the years to come.
- *Review of problems and solutions.* All too often, you learn about an issue with an aspect of your business only after you lose a major client. Through the discussions with your advisory board, you can learn of potential problems before they adversely affect your bottom line. You may also uncover possible solutions that you had not previously considered. There's no better way to identify new ways to add value than by asking your key clients what new services interest them.
- *Increased retention.* Many of your high-net-worth clients work with multiple financial advisors. With their involvement on your advisory board, you can seek to differentiate your practice from the competition, increase your retention rate, and generate incremental assets.
- *Referrals.* By agreeing to participate in your advisory board, your clients are confirming that they like you enough to comment openly about the quality of your services. They're ideal candidates to sing your praises and provide a steady stream of referrals.

BEFORE YOU GET STARTED

Before you invite clients to participate in your advisory board, take the time to plan out its goals, structure, and format. You'll be working with some of your best clients and you don't want to give them the impression that this is a haphazard effort.

- *Goals.* An advisory board is more than just a means to solicit client feedback. It's also a way to demonstrate how important you consider your clients' opinions to be, not to mention a forum in which to showcase your talents. It's a chance to increase assets under management, improve relationships, and generate new ideas. Think carefully about what you want to accomplish with your board.
- *Structure.* There are no hard and fast rules regarding the number of people on your advisory board. It will depend on the total number of clients you serve and the resources in your office. An advisory board of 6 to 12 members should be large enough to obtain a cross-section of clients, but not so large that some clients' voices aren't heard.
- *Format.* There are many schools of thought about how to run advisory board meetings. Some advisors take an informal approach that starts with a discussion and ends with dinner. However, we've often heard a more formal approach is warranted. By emphasizing that your sessions are more of a business meeting than a social outing, your members may take them more seriously and remain more focused. You may also want to consider hiring a professional facilitator to run the meetings, keep discussions on track, and lend a more professional air to the process.

CREATE YOUR ADVISORY BOARD

Once you've determined the number of members your client advisory board will have, you must decide who to invite. In addition to your "A" clients, you may want to include other clients who are business professionals, such as CPAs or lawyers, as they may add a different perspective to your discussions. Selecting opinionated people is helpful in generating feedback, but avoid clients who may dominate discussions.

Make your invitation in person or over the phone. Explain that you're looking to provide the best service possible and emphasize how much you respect the client's ideas and input. Be sure to specify the group's goals, the frequency of the meetings, and the length of commitment you require of your members. You might also consider having members sign a confidentiality agreement.

Ideally you'll want to stagger the membership in one- or two-year increments to strike a balance between maintaining continuity and obtaining fresh perspectives.

RUNNING AN EFFECTIVE MEETING

Many advisors convene their board anywhere between two and four times a year. It's imperative to have a set agenda before each meeting so your members can prepare ahead of time.

A minimum of two hours is generally necessary for each meeting. Let the attendees know whether you'll be serving refreshments or a light meal.

During each meeting, be prepared to accept and respond to constructive criticism graciously. Otherwise, your board members will be less likely to share their honest opinions. Keep in mind that although focus is important, there may be occasions when the group goes off on a tangent. If it appears warranted, be flexible and encourage the discussion before getting back on track.

Above all, remember that your board members are sharing their most precious commodity—their time—so be sure to respect the meeting time frame you established and send a follow-up note afterward thanking them for their participation. Open each meeting with an update on the actions you've taken since the meeting before, and conclude each meeting with a summary of key points. This will reinforce that you're taking your board's suggestions seriously and that you value their input.

REWARDING YOUR BOARD

Although clients don't participate in an advisory board for financial benefit, many advisors reward them for their participation. This may take the form of an honorarium per meeting, a discount on your fee, an annual stipend, or a parting gift at the conclusion of their tenure. You may also want to hold an annual informal dinner or host a cultural or sports outing.

TIME IS AN INVESTMENT

A truly successful advisory board takes an ongoing commitment on your part—for the preparation, the meetings themselves, and the follow-up. The time and effort you spend can be instrumental in increasing your business, strengthening relationships, and working more efficiently. To get the most out of your advisory board's feedback, meet with your staff the day after the meeting to discuss your findings, and develop and implement an action plan accordingly. Then begin preparing for the next meeting.

When One Advisory Board Isn't Enough

Although advisory boards entail a lot of work, you may find that one isn't enough. You may wish to have individual boards for segmented client niches, such as small business owners, or singles, divorcees, and clients who have been widowed. The groups you select may have unique financial planning needs and different views on how to best serve those needs. Just be sure you have the necessary resources and are willing to make an ongoing commitment to each group.

Quick Tip

Let the members of your advisory board know that their opinions will be strictly confidential. This is necessary in order to receive honest feedback regarding staffing, service, and other sensitive topics.

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ARE CLIENTS MINIMIZING THE VALUE OF SOCIAL SECURITY BENEFITS?

For years, most people expected to retire and collect Social Security at age 65. Times have changed and the decision has become more complex. You can help your clients decide what age is best for them to begin collecting Social Security by discussing important considerations with them.

The Impact of Age
Three significant ages affect the amount of a Social Security check. The first is age 62, the earliest clients can request benefits. Most retirees—45.6% of men and 50.2% of women—begin receiving their monthly Social Security check at 62, with significant consequences.[1]

If your clients start benefits before their "full" retirement age, they'll receive a reduced amount. For example, if a client was born in 1950, Social Security checks will be reduced permanently by 25% if he or she begins receiving benefits at age 62 instead of the full age 66. Moreover, the surviving spouse's benefit is reduced by up to 30%.[2]

The second age is full retirement age. The age when clients can receive their full Social Security benefit has been gradually increasing to age 67, as shown in Table 1.

The third significant age is 70. Clients receive a percentage increase in benefits for every year they delay collecting beyond their full retirement age until age 70. Clients born in 1943 and later receive an 8% annual increase on their base benefit and an annual cost of living adjustment (COLA).[2] Those born before 1943 can find their percentage of increase on www.ssa.gov.

Consider a hypothetical example generated by the "Quick Benefit Calculator" on www.ssa.gov. The individual in Table 2 was born on June 1, 1950 and currently earns $80,000 per year. Every year the client postpones collecting Social Security, the monthly check increases significantly.

The monthly benefit estimates assume future increases in prices or earnings, so the estimated benefits are in future (inflated) dollars.

"Value" of the Social Security Benefit
When assessing the value of Social Security it may be helpful to consider the benefits an asset, like other retirement savings, rather than a government entitlement.

The value of a client's Social Security benefits depends on issues including earnings, time worked, the starting date of benefits, and length of retirement. To help understand the value today of future Social Security payments, review the examples in Table 3.

For example, suppose at full retirement age of 66, the hypothetical client's benefit is $2,521 per month, which he or she collects, with the annual cost of living adjustment of 2.8%, until age 90. To generate the same income over the same time on his or her own, this client would need $412,8896 at retirement, earning 8% throughout retirement.

What other investment offers a government-backed annual, inflation-adjusted stream of income lasting a lifetime?

Table 1.

Age To Receive Full Social Security Benefits[2]

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Table 2.

Year Client Starts Benefits	Age	First Year Estimated Monthly Benefit (in future inflated dollars)
6/2012	62	$1,642
6/2013	63	$1,816
6/2014	64	$2,036
6/2015	65	$2,270
6/2016	66*	$2,521
6/2017	67	$2,820
6/2018	68	$3,137
6/2019	69	$3,475
6/2020	70	$3,822

*Full retirement age

In this example, waiting from age 67 to 68 increases monthly benefits by 11.2%.

Table 3.

Social Security Benefit Payment Examples[3]

Retirement Age	Estimated Monthly Benefits in future dollars[4]	If Client Receives Social Security Benefits Until Age...	Estimated Total Benefits[5]	Lump Sum Required at Retirement to Create a Stream of Payments Equal to Social Security Benefits[6]
62	$1,642	80	$459,467	$229,333
		85	$633,150	$263,161
		90	$832,548	$289,228
		95	$1,061,469	$309,316
67[7]	$2,521	80	$517,086	$309,316
		85	$755,858	$363,597
		90	$1,029,983	$412,896
		95	$1,344,696	$450,886
70	$3,822	80	$528,256	$356,242
		85	$852,353	$475,710
		90	$1,224,522	$567,782
		95	$1,651,750	$630,727

Deciding When
You can help your clients determine their optimal age for collecting Social Security by discussing several key points with them.

>Personal circumstances. Do they need extra income? Is the client or his or her spouse in poor health? If so, the client may want to start collecting now. If the client's portfolio and other sources of income—pensions, 401(k)s, IRAs, etc.—generate adequate income, the client may want to delay collecting Social Security to receive increased benefits. Sometimes, it may be advisable for one spouse to start Social Security at age 62 or full retirement age and the other (generally the spouse entitled to the higher benefit) to wait until age 70.

>Family longevity. Little more than a generation ago people could hope to live about 20 years beyond age 65. Thanks to lifestyle changes and medical advances, that lifespan can be significantly longer. If your client is 65 today and plans to spend money as though he or she will live only another 20 years, your client has a 50% likelihood of outliving his or her assets.[8]

>Taxes. Work with a tax advisor if necessary to estimate the client's retirement income and the tax implications of receiving benefits. IRS Publication 915 explains how to calculate the tax on Social Security benefits.

>Individual needs. Determine the best date for your client to start receiving Social Security benefits based on his or her individual needs.

>Current laws. Remember that Congress has made changes to the laws affecting Social Security benefits in the past and can do so at any time.

U.S. Treasury Circular 230 Notice. This discussion is not intended or written to be used, and cannot be used, by you for the purpose of avoiding any penalties that may be imposed by the Internal Revenue Service. It is not written as tax advice, and does not purport to deal with all of the federal or state tax consequences that may be applicable in each client's particular situation. Your clients should consult with their personal tax advisor for advice on these consequences before making any decisions on distributions from their qualified plans.

[1] *Source: Social Security Administration, 2007 Annual Statistical Supplement, Table.*

[2] *Source: Social Security Administration, www.ssa.gov, "Retirement Benefits by Year of Birth."*

[3] *Source: Franklin Templeton Marketing Research. This chart is hypothetical and for illustrative purposes only. Individual Social Security benefits will vary. Taxes have not been taken into account. For this example, we assume the individual is currently earning $80,000/year, was born on June 1, 1950, and, as a result has a full retirement age of 66. The calculations make certain assumptions about earnings and assume future increases in prices or earnings so the estimated benefit is in future (inflated) dollars.*

[4] *Source: Social Security Administration, October 2007, 2007 Trustees Report assumes future increases in earnings each year, through retirement year.*

[5] *Source: ssa.gov. Estimated future cost-of-living adjustments (COLAs). Assumes increases of 2.8% effective January of each year.*

[6] *This is calculated using the net present value of the monthly payments from Social Security as of October 24, 2008. Hypothetical investment assumes an 8% (pre-tax) rate of return, compounded monthly, and monthly withdrawals equal to the Social Security benefit payment.*

[7] *Full retirement age based on a birth year of 1950.*

[8] *Source: Society of Actuaries, Annuity 2000 Mortality Table.*

STATE OF THE FIRM

By Lon T. Dolber, CEO

I present you with the fourth-quarter 2008 performance results for American Portfolios. 2008 fourth-quarter gross revenues and fees of $15,603,234 decreased by 7% from fourth-quarter gross revenues and fees received in 2007 of $16,857,155. Despite an overall decline in business for the fourth quarter due to market downturns, the addition of new affiliated representatives from the previous quarter and assets under management coming into the firm were in large part, responsible for offsetting what could have been a larger percent decrease in gross revenues and fees received for the quarter. A historical analysis of the quarterly performance results shows that 2008 fourth-quarter revenue figures were $5.2 million more than the total gross revenues received in the firm's first full year in business ($10.3 million in 2002) and approximately $7 million more in gross revenues received for the first three quarters of 2003 combined ($8.2 million).

I recently had the opportunity to participate in a client advisory board meeting that John Kosinski holds each year. John's client advisory board is comprised of 10 of his best and most diversified clients, many of whom own small to mid-sized businesses.

The meeting, which took place at a restaurant in Jamesport, N.Y., started with introductions and each attendee describing what he or she did for a living. The board members come from diverse backgrounds: One is a banker, one is a lawyer, and another owns a car dealership, to mention just a few. They discussed their respective businesses and how the recent economic downturn has affected them, from staffing concerns to inventory to the steps each is taking to survive and take advantage of the current financial climate.

John went on to share his plans for his practice (East End Financial in Riverhead, N.Y.) and his view of the current downturn in the markets. When he was finished, he asked me to give an overview of the financial services industry and the expanding role of the independent advisor. I touched on what I believe will be a significant consolidation in the industry as well as a significant move toward the independent contractor model and the benefits of independent financial advice. I made it clear that John was years ahead of this trend with his move many years ago from a transaction-based practice to a practice based on advice.

A client advisory board is a tremendous venue that can further cement the relationship between a financial service professional and his or her clients.

In John's closing remarks he asked his board for their recommendations on how he could provide better communication, including better statements, portfolio reviews, and client meetings. The board was eager to give John advice and counsel, but more importantly they appreciated John's willingness to listen.

I walked away from the meeting more convinced than ever that a client advisory board is a tremendous venue that can further cement the relationship between a financial service professional and his or her clients. Asking your key clients what new services interest them is an excellent strategy for identifying ways of adding value to your practice.

Oppenheimer has developed a white letter about this topic titled "Establishing a Client Advisory Board," which we have included in this issue of *FREE*. It is an excellent piece that highlights the benefits of a client advisory board, offers suggestions on board structure, and provides tips for getting started and running productive meetings.

A successful advisory board requires an ongoing commitment on the financial professional's part, from preparing for meetings to conducting the meetings themselves to following up with members and taking action based upon their feedback. However, the time and effort you spend can be instrumental in increasing your business and not only surviving, but growing in the current economic climate.

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2008 QUARTERLY REVIEW

October 1st – December 31st, 2008

The fourth-quarter 2008 review for American Portfolios is shown on pages 27 through 31. This review has also been posted to the American Portfolios broker website in Rep Services.

Corporate Overview:
American Portfolios has 56 full time employees supporting 549 registered representatives, which includes 51 registered assistants and 22 registered employees as of December 31, 2008.

Financial Overview:
Fourth-quarter gross commissions and fees of $15.6 million were lower than the fourth quarter of 2007, a 7% decrease of $1.3 million from $16.9 million. Gross revenues for the firm have increased over nine times since the fourth quarter of 2001 ($1.6 million in 4Q 2001 to $15.6 million in 4Q 2008). In an across-the-board analysis of products and services offered through American Portfolios, fixed annuities and life insurance received the highest percent increase in gross commission of 183% and 138% respectively, (Table 1). Assets under management dropped 22%, from $9.5 billion in the fourth quarter of 2007 to $7.5 billion in the fourth quarter of 2008 (Table 2).

Fig 1

GROSS COMMISSION AND FEE REVENUE

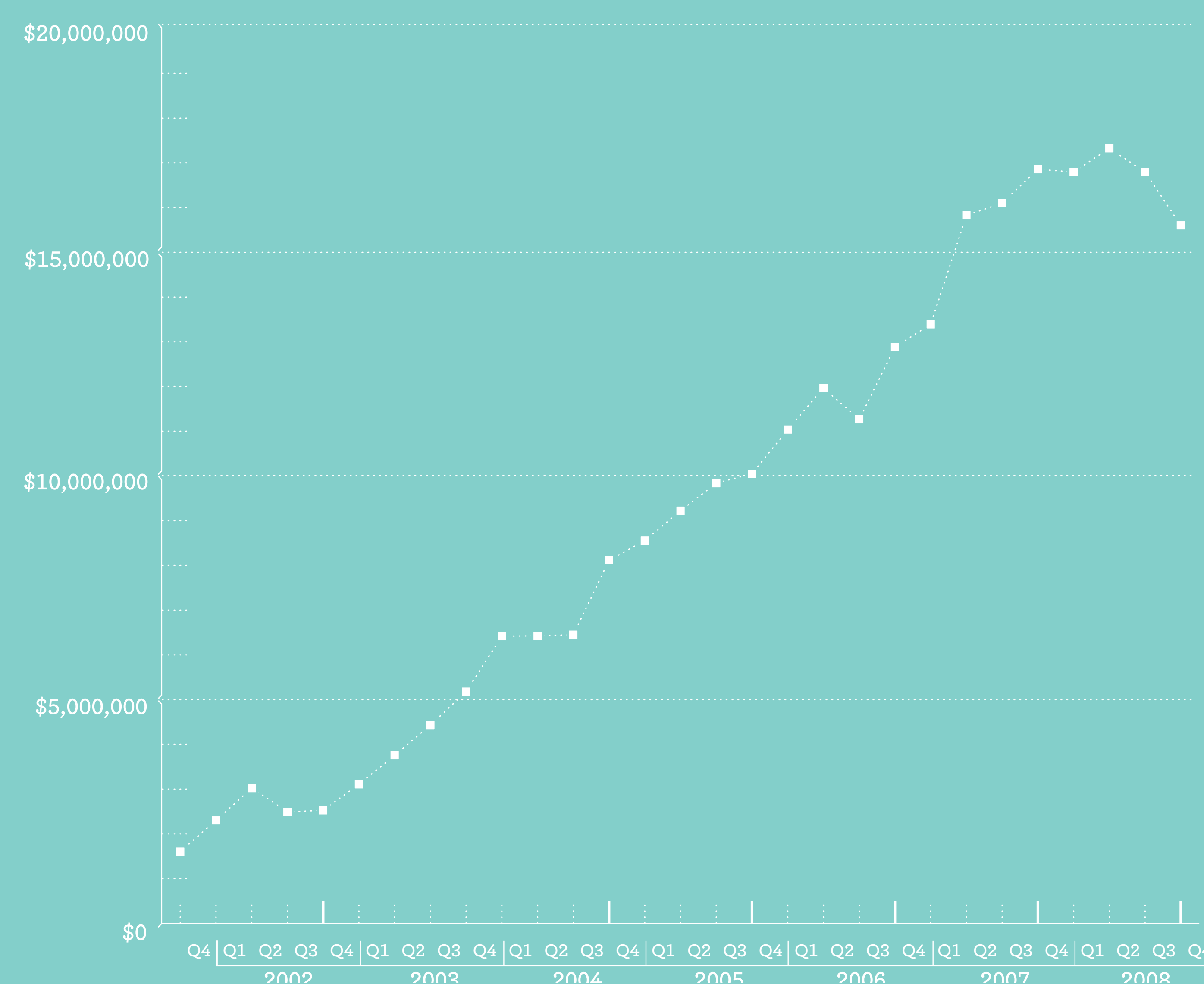


Table 1

GROSS COMMISSION & FEE OVERVIEW

Quarter	Mutual Funds	12B-1 Fees	Variable Annuities	Fixed Annuities	Life Insurance	Managed Accounts	General Securities	Alternative Investments
2001 4Q	**$377,677**	**$337,396**	**$327,855**	**$483**	**$16,140**	**$ 0**	**$463,096**	**N/A**
2002 1Q	$550,413	$389,682	$697,756	$28,245	$24,979	$32,406	$502,945	N/A
2002 2Q	$697,511	$500,594	$894,388	$14,003	$16,144	$89,201	$681,635	N/A
2002 3Q	$446,671	$480,835	$608,129	$90,130	$54,978	$66,546	$602,265	$10,500
2002 4Q	**$504,510**	**$473,900**	**$514,489**	**$78,876**	**$41,808**	**$66,739**	**$667,726**	**$10,500**
2003 1Q	$738,065	$465,601	$944,138	$111,164	$51,006	$90,852	$414,066	$42,740
2003 2Q	$890,264	$590,360	$902,892	$48,075	$186,158	$99,223	$747,131	$48,788
2003 3Q	$932,171	$745,759	$1,171,706	$107,766	$88,621	$126,321	857,482	$44,554
2003 4Q	**$1,052,379**	**$891,779**	**$1,469,274**	**$185,860**	**$88,509**	**$250,466**	**$850,436**	**$73,784**
2004 1Q	$1,392,634	$1,114,582	$1,961,656	$65,424	$75,229	$269,938	$1,090,539	$28,549
2004 2Q	$1,219,564	$1,207,981	$2,021,864	$38,002	$157,260	$433,380	$905,050	$118,893
2004 3Q	$1,219,144	$1,296,661	$1,833,477	$36,692	$163,314	$521,670	$823,100	$147,785
2004 4Q	**$1,481,154**	**$1,486,261**	**$2,414,798**	**$29,594**	**$215,654**	**$583,219**	**$1,474,892**	**$43,848**
2005 1Q	$1,824,456	$1,576,125	$2,453,958	$81,319	$144,146	$704,188	$1,298,549	$39,431
2005 2Q	$1,764,832	$1,649,075	$2,763,990	$90,674	$243,589	$790,887	$1,310,025	$87,983
2005 3Q	$1,594,608	$1,862,325	$2,791,314	$35,528	$235,170	$910,537	$1,658,235	$56,358
2005 4Q	**$1,822,784**	**$2,025,972**	**$2,719,060**	**$102,760**	**$201,046**	**$1,125,763**	**$1,401,672**	**$25,772**
2006 1Q	$2,168,221	$2,264,472	$2,946,526	$ 89,373	$162,797	$1,233,534	$1,743,557	$12,403
2006 2Q	$2,235,356	$2,547,285	$3,277,267	$84,973	$348,799	$1,463,952	$1,592,118	$91,368
2006 3Q	$1,586,985	$2,688,432	$2,902,267	$47,216	$291,917	$1,585,138	$1,392,330	$107,219
2006 4Q	**$1,805,784**	**$2,762,047**	**$3,687,567**	**$64,962**	**$440,852**	**$1,764,368**	**$1,566,537**	**$265,725**
2007 1Q	$2,228,559	$2,924,400	$3,713,477	$21,970	$322,265	$1,862,473	$1,647,707	$183,430
2007 2Q	$2,548,211	$3,110,878	$4,225,425	$153,306	$394,174	$2,263,331	$1,775,617	$520,311
2007 3Q	$2,237,248	$3,479,640	$4,517,128	$120,463	$412,929	$2,560,301	$1,932,932	$280,375
2007 4Q	**$2,241,822**	**$3,458,638**	**$4,999,588**	**$170,699**	**$373,518**	**$2,826,110**	**$1,744,203**	**$437,141**
2008 1Q	$2,315,571	$3,471,954	$4,360,367	$145,745	$736,771	$3,040,161	$1,814,538	$272,025
2008 2Q	$2,241,371	$3,457,992	$4,981,427	$169,016	$681,404	$3,103,679	$1,511,312	$445,075
2008 3Q	$1,855,832	$3,540,274	$4,641,943	$209,199	$906,442	$3,207,233	$1,396,466	$400,785
2008 4Q	**$1,206,333**	**$3,060,978**	**$4,823,976**	**$483,905**	**$889,985**	**$2,828,270**	**$1,418,478**	**$223,561**
Change from Q4 2007	-46%	-11%	-4%	+183%	+138%	+.08%	-18%	-49%

TOP 5

Top Five Fund Families by Commissions For The Fourth Quarter

1. $ 1,114,815 American Funds
2. $ 849,828 OppenheimerFunds
3. $ 395,965 Franklin Templeton Funds
4. $ 173,229 Eaton Vance Funds
5. $ 126,131 Fidelity Funds

Top Five Variable Annuity Vendors by Commissions For The Fourth Quarter

1. $ 763,252 John Hancock
2. $ 755,941 Prudential
3. $ 507,939 Jackson National
4. $ 506,021 Nationwide
5. $ 315,355 ING

Top Five Vendors Assets Under Management as of 12/31/2008

1. $ 1,012,584,425 American Funds
2. $ 719,838,994 OppenheimerFunds
3. $ 399,917,947 Franklin Templeton Funds
4. $ 236,692,578 Nationwide VA
5. $ 221,246,151 American Skandia VA

Table 2

ASSETS WITH AMERICAN PORTFOLIOS

Quarter Ending	Clearing Firm Assets	Assets Held Directly	Total Assets	Increase Over Last Quarter
09/11/2001	$407,939,561	$824,718,413	$1,232,657,974	
2003 2Q	$922,936,847	$1,212,135,975	$2,135,035,662	
2003 3Q	$1,039,499,742	$1,377,732,480	$2,417,232,222	
2003 4Q	**$1,464,631,538**	**$1,701,665,682**	**$3,166,297,221**	
2004 1Q	$1,379,050,247	$1,915,885,560	$3,294,935,807	
2004 2Q	$1,529,313,892	$2,005,769,082	$3,535,082,974	
2004 3Q	$1,621,558,602	$2,266,246,669	$3,887,805,271	
2004 4Q	**$1,793,608,828**	**$2,525,624,801**	**$4,319,233,629**	
2005 1Q	$2,072,980,621	$2,599,152,578	$4,672,133,199	
2005 2Q	$2,087,549,824	$2,714,366,636	$4,801,916,500	
2005 3Q	$2,283,338,949	$3,001,917,860	$5,285,256,809	
2005 4Q	**$2,423,074,182**	**$3,201,420,077**	**$5,624,494,259**	
2006 1Q	$2,707,615,433	$3,484,538,873	$6,192,154,306	
2006 2Q	$3,119,371,820	$3,471,519,408	$6,590,891,228	
2006 3Q	$3,274,773,125	$3,627,859,456	$6,902,632,452	
2006 4Q	**$3,477,988,173**	**$3,809,967,199**	**$7,287,955,372**	
2007 1Q	$3,686,918,635	$4,128,268,176	$7,815,186,811	
2007 2Q	$3,873,325,137	$4,475,309,135	$8,348,634,272	
2007 3Q	$4,200,417,192	$4,836,172,531	$9,036,589,723	
2007 4Q	**$4,428,919,887**	**$5,080,882,861**	**$9,509,802,748**	
2008 1Q	$4,450,873,800	$4,673,183,354	$9,124,057,154	
2008 2Q	$4,506,944,841	$4,753,584,991	$9,260,529,832	
2008 3Q	$4,486,928,475	$4,811,026,955	$9,297,955,430	
2008 4Q	**$3,650,509,827**	**$3,806,557,881**	**$7,457,067,708**	
+/- over 2007 4Q	-18%	-25%	-22%	

Table 3
Representative Overview
09/10/2001 – 12/31/2008

Between September 10, 2001 and December 31, 2008, 671 new representatives have joined the firm while 346 representatives have been encouraged to leave. During the same period, quarterly revenues have increased by $14,000,145 (Q4 2001 $1,603,089 – Q4 2008 $15,603,234).

FOURTH QUARTER 2008 NEW COLLEAGUES

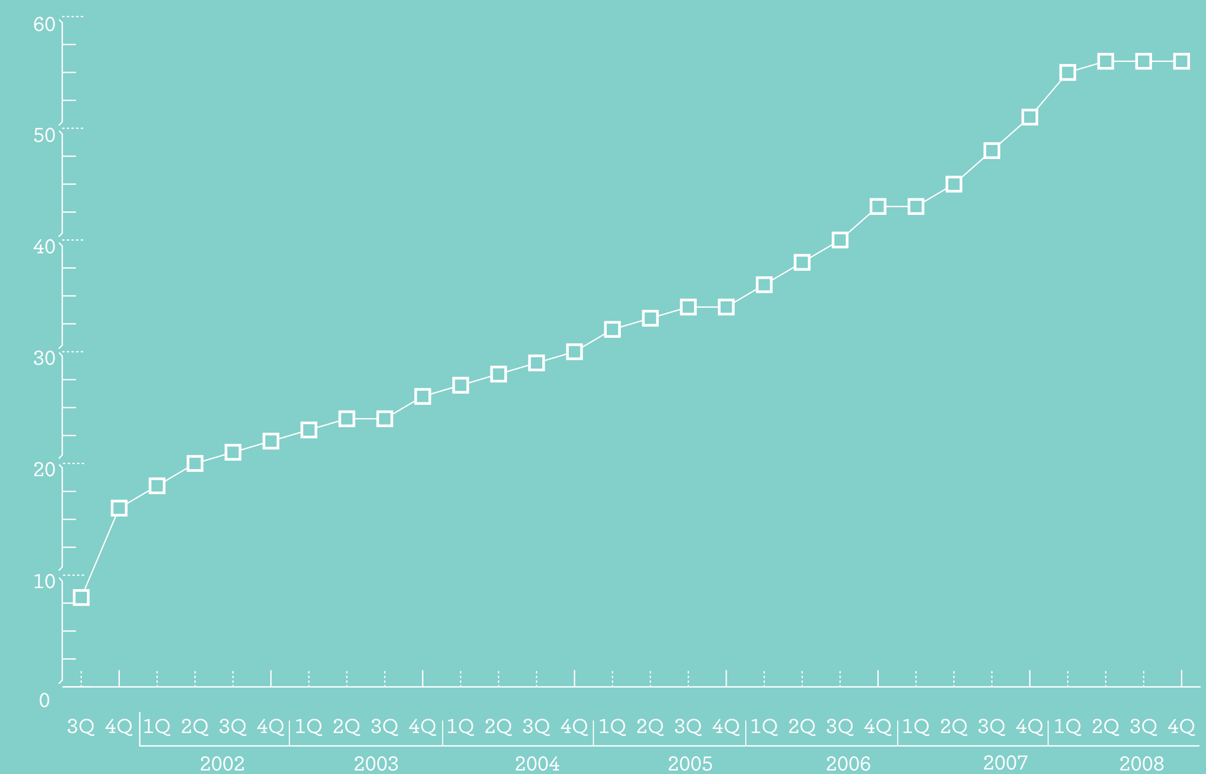
First Name	Last Name	City	State	Supervising Principal	Start Date	Status
Daniel	Marcelain	Macomb	MI	Kenneth Hauck	10/2/2008	Account Executive
Paul	Adamo	Westbury	NY	Daniel Finnegan	10/2/2008	Account Executive
Michael	Olavarrieta	Miami	FL	Richard Gerepka	10/10/2008	Account Executive
Constance	Delise	Hauppauge	NY	Buddy Levy	10/20/2008	Assistant
Kay	Fontaine	Tarpon Springs	FL	Richard Gerepka	10/22/2008	Assistant
James	Verdi	Holbrook	NY	Timothy O'Grady	10/24/2008	Account Executive
Kurt	Price	Monroeville	PA	Ronald Chakler	10/27/2008	Principal
Andrew	Friedman	New York	NY	Scott Nayer	11/5/2008	Principal
John	Tringle	New York	NY	Andrew Friedman	11/5/2008	Account Executive
Tzvi Hirsch	Possick	Melville	NY	Edward Levine	11/12/2008	Account Executive
Lance	Howard	Florence	KY	Edward Levine	11/13/2008	Assistant
Jonathan	Schechter	New York	NY	Andrew Friedman	11/18/2008	Assistant
Michael	Boccio	Holbrook	NY	Lon Dolber	11/25/2008	Employee
Stephen	Davis	Huntington	NY	Stan Alterman	11/25/2008	Principal
James	Hackett	Indianapolis	IN	Kevin Olvaney	11/26/2008	Account Executive
Andrew	Tomlinson	Macomb	MI	Kenneth Hauck	11/28/2008	Account Executive
Charles	Byrnes	Newburyport	MA	Edward Levine	11/28/2008	Account Executive
William	Araneo	Bridgehampton	NY	Tom Wirtshafter	12/5/2008	Account Executive
Kelly	Fiume	Melville	NY	Edward Levine	12/10/2008	Assistant
Steven	Yates	Atlanta	GA	Stephen Molyneaux	12/15/2008	Account Executive
Timothy	Huber	Fort Wayne	IN	Thomas Perry	12/16/2008	Assistant
Barbara	Testin	Oradell	NJ	Ronald Panigrosso	12/22/2008	Account Executive
Cathleen	Burns	St. Augustine	FL	John Wiswell	12/23/2008	Principal
Jason	Waxler	Katonah	NY	Jane Desmond	12/24/2008	Account Executive
Frank	Carrabba	Oradell	NJ	Ronald Panigrosso	12/24/2008	Account Executive

RECRUITING AND MARKETING OVERVIEW

The firm continues to attract new colleagues. Calls from prospective candidates are a regular occurrence for the new business development area. As of December 31, 2008 the broker/dealer had 549 registered representatives, which included 51 registered assistants and 22 registered employees working from 78 Offices of Supervisory Jurisdiction as well as 289 Branch Office locations. As of December 31, 2008 there were 476 producing registered representatives at the firm. A total of 25 new representatives have joined the firm while 11 representatives have been encouraged to leave during the fourth quarter of 2008.

EMPLOYEE GROWTH

Fig. 2



American Portfolios would like to extend a special thanks to its focus partners for their service and support throughout the year.

- **Lon T. Dolber** — *CEO, CIO American Portfolios Holdings, Inc.*
  - **Mary Ann Collins** — *Corporate Executive Assistant*
    - **Mary Ann Rosolino**
  - **Ethel Valentino** — *Personal Executive Assistant*
  - **Robert Dolber** — *CTO*
    - **John Rodriguez** — *Systems Analyst*
    - **Andrew Dorfman** — *Director of Software Engineering & Data Architecture*
  - **Lisa DiBella** — *Director of Human Resources*
  - **Anne Antunovich** — *Director of Finance*
    - **Russell Kerstein** — *Commissions Manager*
      - **Kristen Lee**
      - **Mary LoBue**
      - **Michelle Schwab**
  - **Melissa Grappone** — *Director of Corporate Communications*
    - **Terri D'Arrigo** — *Senior Corporate Communications Specialist*
    - **Craig Poore** — *Manager of Media Production & Studio Operations*
  - **Tom Wirtshafter** — *President APFS & APA*
    - **Dean Bruno** — *COO*
      - **Marc Johnson** — *Trading*
        - **Joesph DeBono**
      - **Phillip Bredow** — *Operations Manager*
        - **Michael Boccio**
        - **Barry Cohn**
        - **John Coyne**
        - **Anthony Esposito**
        - **Tim Hannigan**
        - **Gregory Kelly**
      - **Jared McGill** — *Manager Rep Services*
        - **Melissa Wade** — *Relationship Manager*
          - **Kaitlyn Crawford**
          - **Jon Michaels**
          - **Jennifer Ziemacki**
        - **Carl Kirchner** — *Transitions Supervisor*
          - **Jennifer Emanuele**
          - **Nicole Graziano**
          - **Priscilla Smith**
        - **David Molter** — *New Accounts Supervisor*
          - **Laura Maguire**
          - **Sha-Shawn Montgomery**
          - **Kimberly Oetting**
          - **Lynn Paturalski**
    - **Colin Ramroop** — *Manager of Business Technology*
      - **Amber Kane**
      - **Timothy Mullady**
      - **Ron Wyche**
    - **Tom LoManto** — *SVP Advisory Services*
      - **Joseph Borriello**
      - **Dee Gibbons**
    - **Timothy O'Grady** — *SVP New Business Development*
      - **Jim Finlay**
    - **Frank A. Tauches, Jr.** — *Executive Vice President & Chief Legal Counsel*
      - **James D. Goedtke** — *SVP Due Diligence Analyst & Product Manager*
      - **Frank Giacchetto** — *SVP Compliance*
        - **Martin Wendel** — *Compliance Officer*
          - **Amy Cintorino**
          - **Joseph Remia**
          - **Barbara Rovtar**

AMERICAN PORTFOLIOS

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