American Portfolios Financial Services, Inc.
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FREE

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Organizational Chart appears on the inside back cover

LETTER FROM THE EDITOR

WITH AMERICAN PORTFOLIOS entering its 10th year in business as a successful, preeminent independent broker/dealer, 2011 commemorates and pays tribute to those of you—from the very beginning and along the way—who took a chance on a dream, saw a common vision and found a new place of business to call home.

In tandem with American Portfolios observing its 10-year anniversary, it is with much pride and enthusiasm that I am privileged, for the fifth year, to spearhead the publication of another four issues of FREE. We are always looking for ways to improve the magazine's content, organization and appearance, and I trust you will see some of that reflected here in these pages and in upcoming issues throughout 2011. In fact, by the time you receive this first issue we will already be compiling and analyzing the feedback we received from you through a recent survey we conducted and distributed via *The Independent*.

It is no surprise American Portfolios has withstood and overcome the test of 10 years and some difficult obstacles; you'll understand why once you've had a chance to read this issue's feature on OSJ Managing Director Stan Alterman of Neptune, N.J. (pg. 24); Q&A's with affiliated colleague Linda Grant Smith of Columbia, Tenn. (pg. 28), and affiliated colleague Ted Turner's associate through his arbitration company, Kelly Lonergan of Turner Corp. in Osterville, Mass. (pg. 22); and finally, the profile on affiliated colleague Jane Desmond's client Karen Shapiro from New York City, a fashion art director turned culinary artist and entrepreneur (pg. 32). These stories share a common thread of individuals who possess personal strength, strong conviction and a keen sense of direction as they continue to chart their course.

You'll also understand why American Portfolios is lauded as one of the premier broker/dealers in the independent space after you've had a chance to take in the wealth of collective wisdom written by key thinkers at AP's corporate headquarters, affiliated practitioners in the field, and some of the top minds from our product and business partners on best practices.

And so it is you, the dedicated staff members, our valued financial professionals and resourceful business partners, who together have made American Portfolios the company that it is today—one that we can be proud of and celebrate throughout the year. To you I say, Happy Anniversary!

—MELISSA GRAPPONE
Editor-In-Chief

FREE

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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 **Melissa Grappone** at: **mgrappone@americanportfolios.com.**

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Gregory Blank is an affiliated colleague of American Portfolios and is based in his hometown of New York, N.Y. Prior to his affiliation with American Portfolios, Greg was with Nathan & Lewis/Walnut Street Securities. He built his planning practice with the help of his parents, who are successful estate planners, and with his brother Matt, who is a fellow colleague at American Portfolios. Greg holds bachelor's degrees in sociology and art history from SUNY Binghamton.

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Malcolm Webb, an affiliated colleague of American Portfolios, is based in his hometown of Bloomington, Ind. Prior to joining American Portfolios, Malcolm was with MassMutual and with Hilliard Lyons. He holds a bachelor's degree in economics from Indiana University, and pursues a passion for aviation as a pilot for the Civil Air Patrol. His free time is spent parenting his two children, who live in Macon, Ga., and on various local Methodist and civic activities.

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CORRECTION

In the State of the Firm column in FREE 4.4, the second sentence misstated "...gross revenues and fees received in 2009" as the second quarter when it should have stated the third quarter.

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COMMUNITY/

CALENDAR
4/4-6/20

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

FP **April 4·Noon** Lunch Meeting *Sponsored by Putnam Investments • David Casey*

FP **April 11·Noon** Lunch Meeting *Sponsored by Allianz • Lorraine Lods*

FP **April 13·Noon** Lunch Meeting *Sponsored by Integrity Companies • Keith Carravone*

April 15–April 17 World Team Sports Face of American Bike Ride *Washington, D.C. to Gettysburg, Pa.* ➲ *http://worldteamsports.org/events/face-of-america/*

FP **April 18·Noon** Lunch Meeting *Sponsored by Prudential • Carrie Short*

April 22 Market Closed for Good Friday

FP **April 25·Noon** Lunch Meeting *Sponsored by Lincoln Financial • Chris Lynn*

April 27–29 Investment Advisor Association (IAA) Annual Conference *Boston Harbor Hotel, Boston, Ma.* ➲ *http://investmentadvisor.org*

FP **May 2·Noon** Lunch Meeting *Sponsored by Oppenheimer • Wendy Ehrlich*

May 2–3 Investment News 200 Retirement Income Summit *The Westin Chicago River North Chicago, Ill.*

May 3–6 FPA Retreat *Hyatt Regency Coconut Point Bonita Springs, Fla.* ➲ *http://fpanet.org/professionals/EventsConferences/Conferences/Retreat/*

FP **May 9·Noon** Lunch Meeting *Sponsored by Nationwide • Susan O'Connor*

FP **May 16·Noon** Lunch Meeting *Sponsored by Jackson National • Steve Burke*

FP **May 23·Noon** Lunch Meeting *Sponsored by Invesco • Anthony Camaleri*

May 23–25 FINRA Annual Conference *Washington Hilton Hotel Washington, D.C.* ➲ *http://finra.org/Industry/Education/ConferencesEvents/AnnualConference/*

May 30 Market Closed for Memorial Day

FP **June 1·Noon** Lunch Meeting *Sponsored by Penn Mutual • Ken Junge*

FP **June 6·Noon** Lunch Meeting *Sponsored by Axa • Pat Ferris*

June 8–10 INSITE 2011, Pershing's Financial Solutions Conference *The Westin Diplomat Hollywood, Fla.* ➲ *http://pershing.com/events/insite/index.html*

FP **June 13·Noon** Lunch Meeting *Sponsored by American Funds • Steve Calabria*

FP **June 20·Noon** Lunch Meeting *Sponsored by Franklin/Templeton • Kevin Folks*

STUDIO 4|5|4

ON-DEMAND VIDEOS LINE-UP

Studio 454, the media production arm of American Portfolios (APFS), is committed to creating interesting and informative video programs exclusively for the firm's affiliated colleagues. To view a video, click on the Studio 454 button at the top of the APFS Broker Web site and enter the title of the video in the search field. To scan the program lineup, click on "Top Videos" or "Browse."

Focus On:
Mutual Funds
This in-depth presentation brings together American Funds, Franklin Templeton and OppenheimerFunds to discuss the current state of the mutual fund marketplace and provides several conviction ideas advisors can employ to build their practice. To access this video, use search words "Mutual Funds."

Focus On:
Investment Advisory Business
Studio 454 presents another informative event by bringing together five advisory partners—Curian, Lockwood, IPC, Potomac and TD Ameritrade—for a concise overview of their individual philosophies and professional services. The presentation from the Indianapolis regional meeting can be accessed by entering the search words "Curian, Lockwood, IPC, Potomac or TD Ameritrade."

Leaving A Legacy:
Using Variable Annuities and Mutual Funds
This presentation features Pacific Life Insurance expert Susan Wood detailing estate planning, various trusts and legacy strategies. It also presents several "take away" ideas that can help uncover potential hidden assets in your practice. This program can be accessed by using search words "Mutual Funds."

Global Market Overview
This keynote address from the 2010 Indianapolis regional meeting features OppenheimerFunds' Chief Economist and Director of Research Brian Levitt. He presents an articulate, in-depth overview of the current global economy and market trends for the future. This video can be viewed by searching "Brian Levitt."

Pershing Fixed Income Overview
Pershing Trading Services executives Rob Diemar and Michael Higgins provide an overview on how to do fixed income business at Pershing. It can be accessed by entering "Pershing" in the search box.

The American Perspective surpasses 100th Edition
The American Perspective-
the official APFS company newscast-reached its centennial mark in December with the premiere of it's 100th edition. The 10-minute, award-winning video series, which began production in 2007, is produced bi-weekly to report company and industry-related current events. It remains a viable, integral communications resource for the firm. To view the current episode, visit the Studio 454 On-Demand Video Library and use search words "American Perspective."

STUDIO 454 APPRECIATES YOUR COMMENTS AND REACTIONS.

We welcome your suggestions for future shows.
You can e-mail the studio directly at **studio454@americanportfolios.com.**

Promotions, New Employees and Awards

NEW EMPLOYEES

Michael Martino

Relationship Management Associate

Department:
Relationship Management

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» Joined APFS in October 2010

As a relationship management associate, Michael assists in the day-to-day functions of the relationship management department. His responsibilities include serving as a point person for all representatives and managers, fielding calls from the rep force and the firm's product vendors, and maintaining aspects of the APFS Broker Web site. In addition, he maintains selling agreement files for all products offered through the broker/dealer; coordinates training sessions, teleconferences and WebEx demonstrations for affiliating and prospective reps; partakes in the collection and posting to the firm's news blog, The Independent; and assists in coordinating regional and annual meetings and conferences.

Prior to joining American Portfolios, Michael worked as a personal banker at Bank of America (BOA) for nearly three years. While working for BOA, he obtained his New York state notary license. In his time with the company, he reviewed loan applications to ensure the integrity of data, oversaw and supervised bank operations and employees, and garnered extensive comprehension for complicated financial documents such as appraisals, and credit and title reports.

Michael is a student at Dowling College, where he is currently finishing a degree in finance.

A resident of Sayville, Michael enjoys traveling and any activity that involves the beach. He is also a Giants fan and, as a lifelong baseball player, is a dedicated Yankees fan.

PROMOTIONS

Joseph DeBono

WE ARE PLEASED to announce that a promotion was given to Joseph DeBono during the fourth quarter of 2010.

Joe, who joined the firm in 2006 as a trading associate, has been promoted to senior trader/supervising principal; he will continue to report directly to Trading Manager Marc Johnson as a valuable member of American Portfolios and the trading team.

In his time with APFS, Joe has shown initiative and a desire to gain more industry experience and knowledge by utilizing his supervisory licenses. Over the last few months, he has been mentored by President Tom Wirtshafter, specifically with regard to the supervision of our registered representatives. Joe welcomed the challenge to embark on a new adventure within the firm and excelled during the mentoring process.

Joe will continue in his current position with the trading department, with the added responsibility of supervising various registered representatives affiliated with APFS; in this upgraded role, he acts as a liaison between colleagues and American Portfolios.

Congratulations to Joe on his promotion. APFS is proud of his exceptional service to the field and looks forward to his continued success with the firm.

EMPLOYEE OF THE QUARTER

Craig Poore

FOR CRAIG POORE, manager of media production and studio operations for American Portfolios' Studio 454, life is full of surprises. If asked three years ago what the chances were of leaving behind a successful, 25-year career at HBO, he might have laughed. However, when American Portfolios and CEO Lon T. Dolber came knocking, that's exactly what Craig did, trading in the excitement of commercialized television for an even bigger challenge—the world of corporate financial services.

Craig started out in the media production industry right out of school. Armed with a degree in video production, he landed a coveted job at USA Network, which was partly owned by HBO. A New Jersey boy all his life, a new HBO broadcast center in Hauppauge, N.Y., brought him and his wife to Long Island in 1983. Throughout his tenure with HBO, Craig worked on such shows as "Real Time with Bill Maher," "The Sopranos," "Inside the NFL" and "Sex and the City."

In the early 2000s, however, a gradual shift began; a financial services professional named Lon Dolber called upon Craig's wife—he made contact with her through a network of teachers—to set up a home meeting and discuss the importance of financial planning. Over the course of the meeting, the conversation turned to Craig's career in video and his freelance business, Outpost Media Productions. The two hit it off as Lon, who was about to start a financial services company, had a vision to include a media production studio as a component of the firm.

"I was pretty impressed at the time with how Lon knew, from the onset, that he wanted video—training videos, that sort of thing. Even today, I continue to be impressed with just how forward-thinking he is; the studio was a major commitment and it's extremely well done. Lon knew from the get-go just how important the studio would become to his business, and built it to represent that. We have one of the most highly developed studios with full broadcast quality for a financial services company."

Though Lon spoke that day of how Craig should one day come to work for him, it was something that Craig gave little thought to. In 2004, however, Lon hired him to do some freelance work. It was at that point that a professional relationship was cultivated and, several years later, Craig was offered a full-time position with American Portfolios Financial Services. Craig welcomed the challenge to work in a field of specialized focus.

"You know, now more than ever, I get to do what I really like, which is the actual process of making videos. It's a great job, and one that's very challenging. I'm right where I want to be; I enjoy the challenge and am extremely happy with the work that I produce."

Craig's supervisor, Director of Corporate Communications Melissa Grappone, is pleased with his work, as well, having named him as Employee of the Quarter for the fourth quarter of 2010.

"Craig is a first-rate employee of American Portfolios. He exemplifies those qualities and attributes that support a growing company—dedication, enthusiasm, a strong work ethic, and a sense of personal and shared responsibility for the success of the company. He puts everything he's got into his job and is eager to please, always excited about taking on new projects.

Craig utilizes every bit of his specialized skill set for the benefit of his role and the firm. His contributions have brought true value to American Portfolios, enabling us to set ourselves apart from other service provider firms. He is extremely deserving of this recognition."

As the major force behind the immense growth and demand of Studio 454, he has proven himself ready for any challenge that comes his way. Congratulations, Craig!

New Employee: Michael Martino

Promotion: Joe Debono

Employee of the Quarter: Craig Poore

Spot Award: Bill Flinter

Spot Award: Joe Taylor

Spot Award: Shauna Faulkner

SPOT AWARDS

Each quarter Spot Awards are given to those employees who have exhibited a specific noteworthy act or accomplishment at the firm. This award acknowledges employees, before their supervisors and peers, for their outstanding work. At the same time, it reinforces the behaviors and values that are important at American Portfolios. The following APFS employees, at the request of their supervisors, received Spot Awards in the fourth quarter of 2010…

Joe Taylor and Bill Flint
New Account Associates
"Both of these individuals recently obtained their series 7 licenses. They devoted their personal time to studying and passing this very difficult exam. This accomplishment adds value to the APFS home office staff, and helps them both gain industry knowledge to aide in their roles here at APFS. I congratulate them on this hard earned achievement."

—David Molter
New Accounts Supervisor

Shauna Faulkner
Corporate Communications Associate
"This individual is a shining example of how to be a consummate service provider. She is the personification of courteousness and responsiveness. All you have to do is listen to her speak with a customer or fellow staff member on the phone—a cheerful tone, positive and helpful attitude, with a clear purpose and focus of addressing that one particular request at that very moment—and you will understand what customer service is all about. Whether it's expeditiously fulfilling stationary order and marketing material requests for the field or the home office, providing ongoing support on how to add content to the blog and broker Web site, or accommodating short turnaround requests for the review of internal memos and documents, she completes her tasks happily, willingly and without protest."

—Melissa Grappone
Director of Corporate Communications

Ron Wyche, Tim Hannigan, Craig Poore, Dave Molter, Marc Johnson, Laura Maguire and Shauna Faulkner
"This Spot Award goes out to the group of employees who helped prepare and execute the regional meeting in Indianapolis. Whether is was making name tags, shipping boxes, approving agendas, setting up computer equipment, working the registration desk, preparing and making presentations, filming the meeting or helping onsite every step of the way, these employees should be applauded for their professionalism and attention to detail. Great job to all!"

—Melissa Wade
Relationship Manager

TEXT BY
Dean Bruno

2010 WAS A CHALLENGING, yet productive, year for American Portfolios. With 80 dedicated staff members serving approximately 750 investment professionals by year-end, we affiliated more than 180 new colleagues into the firm, opened more than 13,000 Pershing accounts—an increase of approximately 3,500 accounts from the previous year—and established 36,000 New Account Forms (NAFs) as compared to 29,000 in 2009. For 2011, APFS remains steadfast in growing and strengthening the firm by fostering new relationships and enhancing its systems and services. With the first quarter of 2011 approaching its close by the time this edition of FREE is received, a number of initiatives announced in 2010 will have come to fruition.

› Salesforce

AN ONLINE REQUEST and tracking system, Salesforce allows the field force to submit service requests directly to home office departments and staff members responsible for that task. Some benefits and features include:

- A free service provided by American Portfolios
- Direct correspondence with the person/department assigned to the service inquiry ensures home office accountability
- Operates 24 hours, 7 days a week, allowing users to access and view service inquiries
- Sending a ticket allows users to resolve their issues in a timely manner versus leaving a message with various departments
- Assistants are able to send tickets on behalf of their advisors
- An e-mail notification alert updates users of any status changes
- All open and closed tickets—current and past—can be viewed for reference

› The Assistants Advisory Committee

THE APFS ASSISTANTS Advisory Committee is composed of six registered and non-registered assistants. The committee liaison is Maria Zarb, director of operational project management. Maria assists the committee with its quarterly conference calls, its annual meeting at APFS' corporate headquarters, and current and future agenda building. The committee's goal is to provide an in-the-trenches perspective of the work flow process and direct APFS' management team to those areas where solutions need to be found.

› A Life Settlement Agreement with CRUMP

APFS—as well as CRUMP Life Insurance Services Inc. and its registered broker/dealer, P.J. Robb Variable Corp.—finalized an agreement for life settlement transactions. Registered representatives must now conduct life settlements through American Portfolios if the contract being purchased is variable in nature, or if the proceeds of the fixed or variable contract that is being purchased are utilized for securities transactions. Complete details of this new relationship are contained in the CRUMP subfolder of the Insurance section in the APFS Broker Web site; it is titled, "Life Settlement."

› Comprehensive Training Program

APFS has developed a series of investment professional and employee training events to further develop the breadth of knowledge of our colleagues and staff members on the firm's systems and services. Training events will be provided in the following areas:

- Accounting/Commissions/Advisory Billing
- APFS Broker Web site Functionality
- BD Technology Overview
- Pershing/Operational Overview
- STARS Overview
- Supervisory Overview
- Web Services Overview

Training sessions in these areas will be scheduled monthly with the exception of the STARS overview, which will be held twice a month. A current calendar of training events can be found in the APFS Broker Web site in the Training documents folder, located within Rep Services.

› Pro-Active Initiatives from the Relationship Management Team

RELATIONSHIP MANAGER MELISSA Wade and her team have commenced making calls to our supervising principals on a quarterly basis to discuss any items of interest, as well as to uncover issues that require attention.

› Streamlining Your Business with Pershing

LAST NOVEMBER'S UPGRADED services and core components for commission-based and investment advisory accounts, and hence, a competitive array of brokerage services, strengthened our relationship with Pershing; they are a valued partner that supports us in finding meaningful business solutions for our advisors and their practices. At the start of the year an awareness program, comprised of weekly memos through *The Independent* and the APFS Broker Web site news scroll, was put in motion, highlighting the ways in which Pershing can help streamline one's business. These communications will continue in the weeks and months ahead.

› STARS/Technology Initiatives

WITH STARS BEING the backbone of our operational processes—both internally and in the field—ongoing enhancements are being developed. At any given time, there may be as many as 100 technology initiatives being worked on by the American Outsources team for implementation.

Some major STARS releases so far this year include:

- An Albridge link within APFS New Account Forms
- A new documents blotter
- A Business Processing Module (BPM) variable annuity/variable universal life separation
- The addition of new BPM transaction types

In the future, we anticipate the build-out of an operations blotter to assist both our investment professionals and operations staff. The operations blotter will eliminate the need for colleagues to fax/e-mail documents into STARS and fax/e-mail/mail Pershing documents to our new accounts and operations teams.

On the Albridge front, Manager of Business Technology Colin Ramroop and I have created a document titled "Albridge Transition Expectations"; this document will better illustrate the various nuances of a data transfer process for affiliating colleagues and current advisors taking on new clients. The document contains a grid illustrating various custodians, as well as Albridge data transfer timeframes for account information, transactions, positions and balances. The document also illustrates specific details regarding Albridge client access, historical entry, history and advisor merges (See Tools of The Trade on pg. 34).

As you can see, the APFS team has been keeping quite busy working to make business flow smoothly so that you can run your practices optimally and serve your clients well. Until my next contribution to FREE, I leave you with this quote from President John Quincy Adams, which I try to live by daily: "Patience and perseverance have a magical effect before which difficulties disappear and obstacles vanish." Cheers to a new year.

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Streamline your Business

TEXT BY
Tom M. Wirtshafter

BACK IN 1987, after the Tax Reform Act transformed the independent broker/dealer world, I was part of a team that created a system to produce consolidated reports of client accounts. We wanted to be able to say to potential representatives, "come with us, we can deliver client activity and positions to you every morning." I know it is hard to remember the "old days" when giving a consolidated report of client holdings meant calling the broker/dealer, and all of the custodians, mutual fund, and insurance companies.

But up to that point, only the wire houses could provide consolidated account information to their branches. They were called "wire houses" because in the late 1800s, they constructed private "wires" to their branches to report trades, prices and account information. Trouble was, in order for the wire houses to deliver client information, assets had to be held in the brokerage account and the broker had to be in the branch to get the information. My firm—using an Oracle database, TCP/IP (which became the Internet protocol) and dial-in modems—constructed a system that received data from Pershing, mutual fund companies (through eight transfer agents including DST), and more than 50 insurance companies. That information was then made available to our representatives each day.

The fact that an independent broker/dealer provided account information to all its branches was a sign that not only could we compete with the wire houses, but in fact we were providing services they didn't have. Not only could our reps decide where they wanted to work, but they could decide where they wanted to keep their clients' assets: in brokerage (at the clearing firm), directly at the mutual fund and insurance companies, or with third-party custodians. If they could provide the data to us, we could include it in the consolidated reporting. And this was critical because of the way we did business—dollar cost averaging, periodic payments into 403(b)s, Individual Retirement Accounts (IRAs), and college savings and retirement plans. Over the years, that system grew and became an indispensible part of how we all did business.

When he started American Portfolios, CEO Lon T. Dolber found an outsource provider, Albridge Solutions (formerly Statement One), a small company with a dozen clients, to provide account reporting. Each night, Albridge receives data from a myriad of clearing firms, and mutual fund and insurance companies, and creates a series of reports for advisors and their clients. Albridge also offers additional services, including client access to those reports. It has become the way we do business and, once again, professionals can decide where they want to work and where they want to hold their client assets.

The reality is Albridge, and our system before it, only mimic(ed) the account information. You can't place a trade at Albridge, can't change an account address or update a position from it. You always have to go back to the source to do anything and if you have more than a couple of fund families to deal with, it can be frustrating and time consuming because behind the consolidation, there is sometimes a spaghetti of work when changes occur. A simple address change could take weeks; a transfer of assets could take three or four times longer to complete.

As the technology of consolidated reporting has made it possible to hold assets directly, at the same time, our clearing firms have created the technology that makes directly held assets no longer necessary. Today, Pershing can hold IRAs, TSAs, 529s and most all retirement plans. They've also developed a system to allow dollar-cost averaging, aka systematic purchase and withdrawal plans. NetX360 has simple trading mechanisms that make it very easy to place trades, make exchanges and update accounts. In addition, Pershing offers several features that the mutual fund companies do not, including cost-basis accounting that offers specific lot, highest and lowest shares, FIFO and LIFO, as well as average price.

On top of this, Pershing and American Portfolios have worked together to bring down the cost of doing business, supporting no transactions fees with FundVest, providing discounted fees with mutual fund-only accounts and IRAs, as well as no longer charging for the systematic purchases and withdrawals mentioned above. At the same time, because the cost of labor has risen, it has gotten more expensive to do business directly with the fund families. Think about what happens when a client moves or changes his or her name. How many fund families and insurance companies will you have to contact? Compare the cost of the tickets and your time.

American Portfolios will continue to support direct business and continue to say to its reps, "have your branch where you want it and hold your client accounts where you want to hold them." But understand, just because there is no "direct" cost for doing direct business, it doesn't mean that it comes at no cost.

The future is in favor of the consolidation of assets; client demands for ease of doing business will dictate that. As we all get older opening up statements, keeping multiple passwords, receiving multiple 1099s and updating individual accounts will all become more and more painful. Streamlining your processes will make it easier for you to deliver services and information; and as more of us go through the current transformation of commissions to advisory, it is the combination of timely information and superior service that will allow our businesses to grow.

As the technology of consolidated reporting
has made it possible to hold assets directly, at the same time, our clearing firms
have created the technology that make directly held assets

NO LONGER NECESSARY.

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Give Me The Right Paint ...

Anatomy of a Regulatory Hearing

TEXT BY
Frank A. Tauches, Jr.

ILLUSTRATION BY
Tim Gough

IT HAS BEEN 40 years since I was admitted to the practice of law and tried my first case. I can specifically recall how I felt preparing for that trial; I envisioned myself a knight of old in shining armor out to do noble battle, but armed with the "facts of the case" and the "law as it applied to the matter at hand." It didn't take long for reality to prevail.

Four hundred trials, arbitrations and regulatory hearings later, I envision a judicial hearing differently. I now view it as a painting and the "battle" is replaced by the creation of the image I want in the minds of the arbitrators, judges, jurors or the hearing officer when I conclude the case.

The canvas is the forum, whether a court of law, an arbitration or a regulatory hearing. While we may have very little control over selection of the forum, we have a great deal of control over everything that goes on that "canvas."

The background for this painting is just that; the background of our firm and the background of the advisor whose actions are under scrutiny. It's the reputation, operational history, regulatory examination and disciplinary record of our firm. Most importantly, it's the Written Supervisory Procedures (WSP), technology and operational practices of the firm that give "texture" to the background. It's also the education, licensing, and complaint and disciplinary record of the advisor that sets the background for the hearing.

The "paint" for this canvas is mixed and prepared long before a hearing or trial date is even set. It is found in the daily routines the advisor performs that comply with firm policies and ensure that the client's interests are best served. An advisor reinforces those practices through regular contact with the client and by ensuring that the client understands the investment and any fluctuation it may experience in value.

A great deal of work must still be done in preparing the advisor and any other witnesses for the hearing. This is where final touches are applied and testimony is reviewed—not only for direct examination, but also for cross examination and any possible questions from the panel. After all, opposing counsel will use their best efforts to mar the image we are creating. The challenge is preparing the witnesses for that effort and making sure that the cross examination is used to reinforce the image we choose to convey.

I know what the final product should look like; it should be a very clear picture of a knowledgeable, caring professional who works diligently to ensure that the investment products and services recommended are consistent with that client's wishes, objectives and resources. Every action of that professional should be within the firm's guidelines for the investments chosen and the client's suitability for those investments. One thing is clearly imperative—the client must have an obvious understanding of each investment and its potential risks and rewards.

At APFS, our procedures—when consistently followed—lay a solid foundation for a very favorable image in any hearing. The addition of proper and timely supervision conveys strength and unity in that image. The best way to achieve a positive result under these trying circumstances is for each advisor to develop routines in their practices, as well as in relationships with their clients, that "give me the right paint" to create the image that will prevail at any hearing.

During 2010, APFS engaged in two full-length FINRA arbitrations brought by former customers of our firm. Because of the strength and adherence to our firm's procedures by the advisors and their supervising principals, APFS won the decision in each matter.

As always, feel free to contact me with any questions or comments you might have.

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Thoughts *for* Future Planning

TEXT BY
Phil Cordero

ILLUSTRATION BY
Tim Gough

Planning for the future; it is what all advisors advocate to their clients. However, when it comes to their own businesses, many do not properly plan for their own future. Having a plan in place, whether the exit from the firm is a planned or an unplanned departure, is paramount. Yet, very few advisors have well laid plans. Sure, most have probably given some thought to retiring or selling their book, or even bringing an advisor on board with similar experience with the intention of having them take over, but my guess is that very few actually have a well documented plan for such a transition, let alone plans for a life-altering event that could render the advisor unable to continue with his or her practice. In the interest of stirring the pot and getting your head wrapped around preparing a solid succession plan, here are some thoughts for the future of your businesses.

When to Develop a Succession Plan

It is said that advisors should begin developing a succession plan seven to 10 years before exiting the business. While this time frame is considered adequate in planning for the future of your business after retirement, it doesn't account for the possibility of an unexpected disability or death. Accounting for all possibilities early on in your career not only helps to safeguard your interests, but it also aides in determining the true value of your business—information that becomes useful in any stage of your career.

Determining the Value of Your Business

Establishing a business valuation plan as part of your succession plan identifies the practice's cash flow and growth trajectory and illustrates that the future of your practice is not just left to fate, but is in fact being directed, creating a more valuable firm. Identifying the worth of your business, as well as items that may improve your business—like transitioning to fee-based or simply offering fee-based planning services—help you get a more solid grasp on the future. The process of creating the valuation plan will ensure that your own retirement needs will be met, and that your retirement will be financially sound. Additionally, establishing a business valuation as part of the succession plan allows you to better determine where responsibility will lie and how it should be distributed to whomever is going to take over your business.

Mentoring a New Advisor

A logical and viable solution for most advisors is to sell their practice to an existing partner or employee of their firm. If selling your book of business is the road you want to travel, mentoring the advisor who is preparing to take over the business is crucial. As we know, building trust among clients can sometimes take years, if not decades, to establish. Whether you're bringing on a younger advisor or an established partner within your firm, you must identify each client and relationship to them in order to ensure that each receives the time needed to build trust in their new confidant—the person taking over the responsibilities of planning and handling their finances. Some clients will need more time to build trust, while for others it may come more quickly. However, all clients will understand the value being delivered when they can trust their financial needs are being met, but most importantly that the relationship they've established with you, their financial advisor, is not being taken for granted.

Creating a succession plan is a critical exercise advisors must take seriously, not only for themselves but for their clients as well. The nooks and corners you will shine light into as a result of this planning is a value-added activity, one that could even be marketed to your client base. Knowing an advisor has planned for their own business puts clients at ease, helping you to retain assets under management longer and attract new clients. When a client knows their long-term goals are being met, in every way, a foundation is set in place, ensuring your position as a trusted advisor.

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6 Ways *to* Grow Your Business

without Having to Talk about the Markets or Sell a Product

TEXT BY
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Those of us who have experience in this business—when measured by the longevity of our client relationships—know that good customer service, not product sales, is the best client retainer of all. It is a clear, common denominator of successful advisors. The following are some ideas which I have found help develop strong relationship growth with existing clients and lead to strong referral opportunities.

1 Be a generalist, not a specialist.
All of us have our own distinct opinions about planning and investment management. However different our business philosophies may be, there are certain realities that face us all; realities that legal, tax or outside financial advisors just don't feel comfortable addressing. I believe this has been the big differentiator for me. Some questions that should be asked: Do your clients have a will? Have they reviewed their retirement account beneficiaries? Have they had the conversation with their parents about eldercare? These more general questions are sometimes the hardest to broach, but by asking your clients what other professionals won't, you are positioning yourself as the trusted advisor, providing comprehensive coverage in their true best interests … and they'll know it.

2 Get referrals through existing clients.
Advisors dread asking clients for referrals and clients dread being asked to hand out their friends' and family's phone numbers. This is not news, but it is why I have non-business client appreciation events. Some do book clubs; others, golf outings. I engage one of my best product partners (a wholesaler) and with their financial support, do cheese and wine presentations. I choose five to 10 "like-minded" clients and ask them to attend with friends who share their good tastes. In truth, I am totally obvious that I am looking for an introduction; but, because that's my personality and they well know it, they gladly oblige. They know the presentation will be high class, intellectual and have nothing to do with our business … except, of course, for the two-minute plug of the "co-sponsor" and their relationship with our client accounts, which is indirectly an endorsement of me.

3 Establish a matrix.
Organization is paramount; segregate your households or businesses by their respective criteria. Examples might be the 1) accumulation phase, 2) income phase, 3) business owners/entrepreneurs, 4) high income earners, 5) home owners, 6) referral sources, 7) centers of influence, 8) sports fans or 9) wine clubs, i.e. any specialty group(s). Then create target mailing lists or e-mail threads for the respective groups. Some might overlap, as the needs or interests for one group may be the same as others. Share with your team and educate them on everyone's particular needs. Engaging your staff to be familiar with your clients is beneficial to all.

4 Find untapped lines of business for additional profit.
However comprehensive your practice may be, chances are there's always an area of need that has not been uncovered. An added benefit of establishing a client matrix (tip 3) is that, through organization, you'll be better able to identify client demographics for which you may not have properly met a client service. I recently discovered that I had been inattentive to my self-employed clients' disability insurance coverage. I recently found a good disability insurance rep and had that person run generic proposals based on age and income, which I then placed in the applicable clients' files. I then e-mailed those clients to let them know I had done so and that we would discuss this at our next review. Another idea might be addressing long-term health care for recently (or near to) retired clients, or for clients with recently retired parents. How about a client net worth summary with a cash flow statement for this same group? This is a great reason to reach out to your clients annually and gather the account statements that you may not already handle.

5 Try and learn something new every day. Ok, not every day.
We must all continue to broaden our scope of understanding and knowledge. Unlike our counterparts at the banks and wire houses, as independents we have to take the initiative ourselves. Meet with new potential product partners and ask them to give you their best advanced planning ideas, without mentioning a specific product, in 10 minutes or less. Limit it to two to three, and then choose which ones make the best sense. Look for new investment ideas, planning strategies and practice management initiatives with which you are unfamiliar. When you find one you like, have that person come back and hear it again.

6 Get rid of your voice mail.
We are a service business, not a sales business. During working hours your customers want access to you and your staff. I have my staff take hand written messages, which although a bit old-fashioned, builds familiarity and thus helps strengthen the client relationship. I think that this is integral to the higher level service our clients are looking for. Voice mails and voice prompts are reserved for telephone companies and the big banks. I do my best to differentiate.

Simplistic as they may seem, I feel that the above ideas have helped me to achieve greater success in this business. We all have different styles and personas, but as independent planners, unlike the banks, wire houses and insurance companies, our advantages are the same; we can remain loyal to our customers and not to a product we are under demand to sell. Therefore, sustenance of our client relationships is imperative and it will not be satisfied by pricing or performance. It will be best met with superior customer service. Likewise, our long-term success in this business is ultimately dependent on our clients' personal and financial successes. Our clients are savvy; they realize and appreciate this and, in turn, will reciprocate the same commitment and loyalty.

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Myths, Misconceptions & Missed Opportunities on LTC Planning

TEXT BY
James Kaufmann

AS BABY BOOMERS find themselves in a quandary between paying off college tuition(s), being left to care for an elderly parent (both physically and financially) and—to make matters even more complicated—making provisions for their own impending retirement, the impact of longer life spans due to advanced medicine weighs heavily on their shoulders. The once coined description of the post-World War II baby boomer generation as the "sandwich" generation is now more appropriately being referred to as the "panini" generation.

FOR THOSE OF you, like me, who have a fair number of baby boomer clients in your practice, advising them about the importance of long term care planning (LTC) is imperative. But if you would sooner have a root canal than engage in a discussion with your client about LTC needs, you're probably not alone. It's an emotional and difficult conversation that, if not armed with some convincing arguments and a good foundation about LTC, will fall on deaf ears.

According to a USA Today/ABC News/Gallup Poll of baby boomers, 41 percent who have a living parent are providing care for them and 8 percent have a parent living with them; of those who are not caring for an aging parent, 37 percent say they expect to do so in the future and about half say they are concerned about their ability to do so.

We all have our share of stories, including personal ones, about the financial impact and devastation felt by families when an elder family member needs some help. As they get older they want to maintain their independence; they don't want to be a burden on their families. Yet if an elder person has assets that are intended to be passed onto their heirs, those assets are more likely to be depleted to pay for care if not adequately planned for. Here are some facts obtained from the 2010 Genworth Cost of Care Survey:

- Home care can cost as much as $30,000 to $50,000 annually.
- A skilled nursing care facility ranges from $50,000 to $120,000 annually—or higher.
- Assisted living facility costs fall anywhere between the above.
- The average stay in a nursing home is approximately two to three years.

Long term care insurance may very well be the most powerful and cost effective strategy to help protect your client's assets. Every financial service professional should be talking with their clients about long term care planning, and there are some compelling arguments and recommendations that can be made to support this.

LTC Insurance Versus Other Insurance Coverage

As you become older, the chances are far greater for tapping into insurance used to pay for LTC than that of homeowners or car insurance. According to the National Association of Insurance Commissioners (NAIC), the risk factors for losing your home to a fire or your car to an accident are 1 in 2,500 and 1 in 270, respectively. For long term care needs it is 2 out 5. The fact is, without LTC insurance you would be paying a lot more out of your pocket. While LTC covers a very big risk, some insurance providers offer a return of premium if they are not used. For some plans such as life insurance with a LTC rider, contract holders must continue paying into the policy for 10 years before receiving a refund in premiums.

IF YOU WOULD SOONER HAVE A ROOT CANAL THAN ENGAGE IN A DISCUSSION WITH YOUR CLIENT ABOUT LTC NEEDS,

YOU'RE PROBABLY NOT ALONE.

Misconceptions About The Costs Of LTC

While so much has changed and more products have been developed in the LTC space, there still remains a great deal of confusion about the costs of LTC. In the early days, the only LTC products being offered were the "Rolls Royce" plans at $8,000 a year in premiums for a couple, which included lifetime benefits, 5 percent compounded inflation protection and other extended benefits. However, in recent years, some of the newer LTC products are priced more affordably—the "Ford" plans, if you will—between $3,000 and $5,000 in premiums for a couple; these plans don't include everything under the sun, but do provide solid LTC protection.

Enhancements in Long Term Care Plans

Since long term care's inception in the early 80s there have been a number of enhancements to LTC that may dispel some of the misconceptions about the limited coverage and complexity of these plans:

- Home care is covered at 100 percent by the policy (some companies offer additional options such as 50 percent of the daily benefit amount).
- Home modifications, such as a wheelchair ramp or handicap bathrooms, are covered under long term care up to a specified amount.
- Hospice care is covered under the policy.
- In 1997 and under current law, the IRS allowed for a tax deduction as a medical expense on part of the premium for LTC insurance (i.e., N.Y. state allows a 20 percent credit).
- There are now new hybrid products, as in the universal life policy with the LTC rider, which provide certainty that some benefits will eventually be used.
- The government, on or about 1994, made insurance companies write their policies in simple, plain English.

Buying LTC Now Rather than Later

Years ago, LTC products were targeted to retired persons in their mid-70s. As such, for those who were accepted, the premiums were exorbitant. Today, with more affordable product choices available and shifting actuary tables factoring in longer life spans, the niche for LTC buyers is now with individuals in their 50s and 60s. The fact is, with the recent economic upheaval, paying such sky rocketed premiums are simply out of reach for seniors in their 70s or even 80s, and the chance of insurability is less likely at this age.

While LTC may still be perceived as expensive coverage used to pay for the care of old people in nursing homes, here are some facts that counter that myth:

- Approximately 40 percent of long term care recipients are between the ages of 18 and 64.
- A single person aged 60 can get significant coverage for an annual premium under $3,000.
- Many elder law attorneys will tell you the best way to protect yourself and your assets is with LTC, provided you are healthy enough to get approved.
- Approximately 30 percent of people receiving care remain in their own homes.

Strategies for Recommending LTC

I recommend LTC insurance to all my pre-retiree clients. I explain that they should apply now while they are healthy and avoid having to pay much higher premiums in the future. With good health on their side, they are also likely to be entitled to a "preferred health discount" offered by most insurance companies.

Additionally, provided their liquidity needs are sufficient, clients might want to consider using some of their non-investable assets—earning very little taxable interest—to be left to their heirs in the purchase of a hybrid universal life policy with a long term care rider. For example, a $100,000 CD could purchase such a plan and provide approximately $200,000 in tax-free death benefits, and between $400,000 and $500,000 in benefits for long term care.

FUNDAMENTAL THINGS YOU SHOULD KNOW ABOUT LTC

Partnership Programs for LTC

These programs started in the late 1980s. It is an agreement between the insurance company and a specific state, which enables a person to qualify for extended Medicaid coverage if by chance the policy benefits get exhausted while protecting the individual's assets. Forty to 50 percent of states have partnership plans. Unlike individual LTC policies, partnership policies require minimum coverage and benefits in order to insure total asset protection. You can use any policy from any state. The partnership policies have a little twist, however, with regard to receiving Medicaid Extended Coverage; that is an individual may have to move back to their original resident state in order to receive such benefits.

Medicare and Medicaid Coverage of LTC

While Medicare will not pay for LTC, Medicaid will if you're impoverished.

Prequalifying Clients for LTC

Before sending a client down the road in applying for LTC, some basic prequalifying questions should be asked:

- Are your parents still alive?
- What medications are you currently taking?
- Are you active?
- How is your health?
- Would your doctor give you a passing or failing grade on your health?

The following are examples of health conditions that would most likely disqualify a person from receiving LTC insurance:

- Alzheimer's
- Diabetes
- Muscular Dystrophy, MS or Parkinson's
- A stroke, or two or more TIAs (mini-strokes)
- Cancer, in cases where treatment is currently being received
- Obvious visual health conditions like use of a walker or quad cane

An applicant must show evidence of healthy living activities in order to qualify for LTC. It is the loss of two or more such activities—referred to as activities of daily living (ADLs)—that will trigger the long term care benefits to be paid out. Examples of ADLs are: eating, bathing, dressing, transferring and continence.

Should an individual be unable to get long term care coverage, there are other planning options—albeit less favorable ones, such as gifting strategies, transferring assets, reducing the estate and utilizing trusts—that an advisor may recommend for his or her client that will require the services of an estate planning attorney and accountant.

As with any product or planning area, LTC comes with its unique set of intricate details that require the time to learn and become familiar with. Insurance companies that offer LTC are constantly changing and updating their products, and staying current with these is important in order to make the appropriate product recommendations for your client. An understanding of Medicare and Medicaid rules is also important in planning for one's long term care needs.

In closing, I've compiled a list of sources you can refer to for answers and helpful information about long term care and everything surrounding it. Of course you are always free to tap into my 17 years of acquired and practical knowledge in this planning area.

- U.S. Department of Health and Human Services (www.hhs.gov)
- Directory of state health departments (www.cdc.gov/mmwr/international/relres.html)
- The 2010 Genworth Cost of Care Survey (http://www.genworth.com/content/products/long_term_care/long_term_care/cost_of_care.html)
- ElderLawAnswers (www.elderlawanswers.com)
- Certified Financial Planner Board of Standards (www.cfp.net)
- Alzheimer's Association (Alz.org)

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

THE ODD INDEX OR TWO

TEXT BY
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ILLUSTRATION BY
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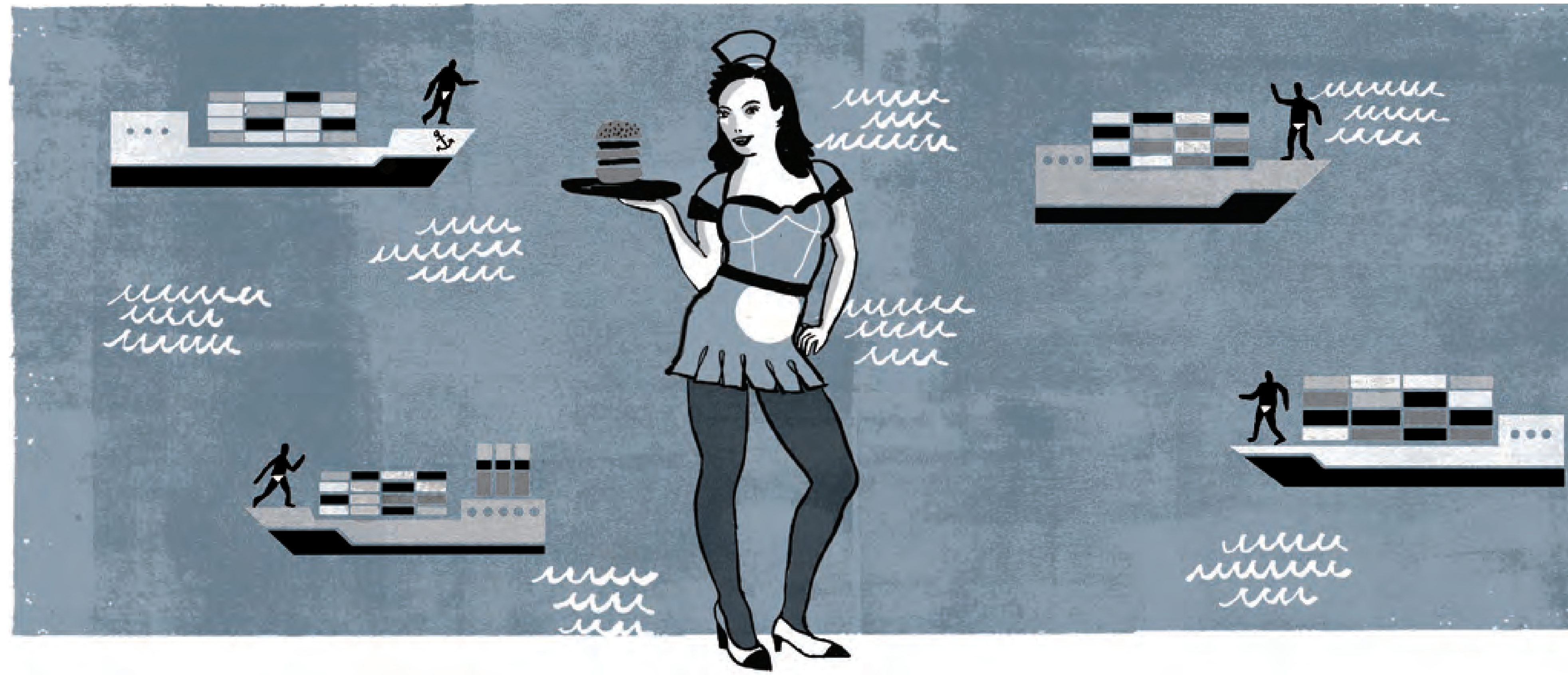

PERHAPS THIS HAPPENS to you: You're at a cocktail party and the subject turns to your profession. Once your conversational partner finds out you're in the investment business, inevitably the question follows, "What do you think is going to happen in the market?" It's a logical question, because the human mind is predisposed to short-term thinking, especially among the young and those who hang out professionally at casinos. It is also an unfair question, for anyone who acts upon your answer might try to hold you accountable, at least, morally. I recommend two tactics to avoid being hopelessly pinned down. The first, which I shared in a previous FREE contribution, is to hedge your answer using numbers sufficiently wide enough to drive a Boeing through. The second is to simply launch into a discourse on indices and economic indicators. If you do this and switch to a third distracting topic quickly enough to prevent mass hysteria of a narcoleptic nature, you just might be invited to another party.

AN INDEX IS a useful tool for taking large amounts of data and compressing that data into a simple number that we can comprehend and track effectively. Ponder this for a moment: How difficult would it be to describe what happened last year in the stock market without referring to an index? Charles Dow—one of the founders of Dow Jones, the publisher of the Wall Street Journal—devised the world's first stock market index to solve this problem. If you guessed it was the Dow Jones Industrial Average, you would join us in being wrong. It was actually the Dow Jones Transportation Average, which started as the Railroad Average in 1884. Railroads were the most common publicly-traded companies at the time. Twelve years later, on May 26, 1896, Dow finally created the Industrial Average by tracking the prices of 12 non-railroad companies (which eventually expanded, as we know today, to 30 companies in 1928). To understand an index, imagine taking the prices of all the companies included in that index and add all their prices together. This way oversimplifies the math, but it's a fine starting point and allows you to avoid discussing divisors and percentages entirely.

Although Dow's purpose in creating indices was to illuminate the market for outsiders, it wasn't long before people began examining his data for information that could be useful to predict the direction of stock prices. Dow himself noticed that broad movements of both averages seemed to confirm a market trend, and in the process he created the Dow Theory, spawning a new industry known today as technical analysis.

More than a century later, we're still trying to predict the direction of stock prices and track broader economic activity through the use of indices, some of which have very odd names:

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The Baltic Dry Index[1]
Wouldn't it look sophisticated to sit down at the bar and tell the bartender, "Make mine a Baltic Dry on the rocks"? Actually, although it sounds like a martini, of all the wacky indicators my researcher G. Dorothy and I ran across, this one seems by far the most legitimate. It tracks the shipping of raw materials, like iron ore or cement. The supply of ships, although grown in recent years, doesn't rise or fall very fast (it takes a while to build a ship), so the rates for shipping rise or fall almost entirely with demand. You have to feel pretty confident you can sell product to order a whole ship full of raw material, so the shipping rates tend to fall quickly in anticipation of a recession, and rise early as manufacturing begins to pick up.

In a similar vein, the Ceridian-UCLA Pulse of Commerce Index[2] tracks the sales of diesel fuel at truck stops to interpret trucking activity.

The Hemline Index[3]
Attributed to the esteemed Wharton labor economist George Taylor, the index suggests a correlation between the length of women's skirts and the state of the market. High markets equal high hemlines or, to put it more festively, shorter skirts. This one seemed accurate enough when it rolled out in the 30s: 1920s flapper—roaring 20s tech-stock market (the tech of the time was radio rather than the Internet). By the 1930s, hemlines came down with the market. Lately, there appears to have been a breakdown in hemlines themselves so the index has morphed into the Bare Midriff Index[3].

The Men's Underwear Index[4]
This index was attributed to Alan Greenspan by NPR correspondent Robert Krulwich[5]. Supposedly, Greenspan would pay close attention to data about the sales of men's underwear, the idea being that we wear that stuff until it's in tatters unless we're feeling flush enough to buy more.

More than a century later, we're still trying to predict the direction of stock prices and track broader economic activity through the use of indices, some of which have very odd names:

The Hot Waitress Index[6]
This index was popularized by writer Hugo Lindgren, who noticed that as the recession spread through his neighborhood, the physical appearance of restaurant wait staff gradually shifted—for the better. He queried managers at one restaurant and they openly admitted they were successful in hiring model-quality waitresses because of the recession. Lindgren theorized that these beautiful lasses and lads were once able to make money selling condos or standing next to cars at car shows—when times were better. Lindgren postulates that, unlike general unemployment, hotness has a special cachet that will cause these people to be the first hired for more desirable jobs as employment improves. Those of you on the coasts will have to let us know. We live in a college town, so the index is invalid here. Either that, or we've been in a recession ever since we arrived here in 1967.

The Big Mac Index[7]
This index doesn't track stock markets. Rather, it tracks currency markets by comparing the prices of Big Macs in various countries and comparing those prices to official exchange rates in order to determine which currencies might be over or undervalued. As of October, the Swiss Franc was considered the most overvalued, as a Big Mac there cost the equivalent of $6.78, compared to $3.71 in the U.S. Since its creation more than 20 years ago, the Big Mac Index data has also been used to compare standards of living in various countries by tracking the number of minutes it takes to earn enough money to buy a Big Mac at average labor rates for each country. "The Economist" is so enamored with it they've added a Coca Cola Map of the World and a Starbucks Tall Latte Index to their lineup. We are not making this up.

While potentially useful in their own right, the real value of these indices may be in the simple fact that they're odd or interesting enough to get clients to focus once again on simple business cycles, and by extension of the honest techniques we use to help our clients make money, whether by exploiting inefficiencies in markets, by getting clients to focus on the long term ownership of intelligent capital, or by providing leadership that helps our clients recognize, at critical moments, the folly of a herd mentality.

1 Baltic Exchange Information Services, LTD. (n.d.) "The Baltic Exchange." Accessed Jan. 10, 2011 from the Baltic Exchange Information Services Web site: http://www.balticexchange.com/.

2 Ceridian. (n.d.). "Ceridian-UCLA Pulse of Commerce Index." Accessed Jan. 10, 2011 from the UCLA Anderson School of Management Web site: http://ceridianindex.com.

3 Lewin, Tamar. (Oct. 18, 2009). "A Hemline Index, Updated." Accessed Jan 10. 2011 from the New York Times Web site: http://www.nytimes.com/2008/10/19/weekinreview/19lewin.html.

4 Mui, Ylan Q. (Aug. 31, 2009). "Blue Chip, White Cotton: What Underwear Says About the Economy." Accessed Jan. 10, 2011 from the Washington Post Web site: http://www.washingtonpost.com/wp-yn/content/article/2009/08/30/AR2009083002761.html.

5 Pashman, Dan. (Sept. 20, 2007). "Krulwich Exposes Greenspan's Underwear Secret." Accessed Jan. 10, 2011 from the National Public Radio Web site: http://www.npr.org/blogs/bryantpark/2007/09/robert_krulwich_exposes_greens_1.html.

6 Lindgren, Hugo (Aug. 2, 2009). "Hot Waitress Economic Index." Accessed Jan. 10, 2001 from the New York Magazine Web site: http://nymag.com/news/intelligencer/58195/.

7 The Economist. (n.d.) "Currencies: Big Mac Index." Accessed Jan. 10, 2011 from The Economist Web site: http://www.economist.com/markets/bigmac/.

Dude, Where's My iPad?

TEXT BY
Lon T. Dolber

THIS PAST CHRISTMAS I decided to purchase an Apple iPad for my wife, Debra. I could have easily gone to the Apple store or to Best Buy but, in an effort to avoid the holiday rush, I decided to buy it online. The Apple site is easy and intuitive to use and in a matter of minutes I had placed my order for a 32 GB Apple iPad. To be sure that I would receive the device in time for the holidays, I paid extra to have it sent within two days. With the order placed on Dec. 14, and Christmas more than two weeks away, I was very confident I would have my wife's gift in hand with time to spare.

After two days and no delivery, I referred back to the e-mail confirmation I received from Apple after I had made the purchase, to check on the delivery status of the iPad. Everything seemed to be in order; on Dec. 14 the billing info was received by UPS and the package was shipped on Dec. 15 from Chengdu, CN. Other than the unusual name for a city near Cincinnati, the rest of the order seemed fine. I closed the browser, figuring I just needed to give it more time. After all, it was only Dec. 16.

After one more day and no iPad, I decided to call the 1-800 number provided by Apple. They have a pretty nifty voice activated system which allows you to, at any time, ask for an operator and immediately be connected. So, after 10 minutes of conversation with the computer I yelled, "I want to speak with a live person." Within one second, BOOM, I was speaking with a human being. They looked up my order and assured me I would receive the package the next day, Dec. 18. The UPS site also indicated the package had departed from Chengdu and was on its way. There was no need to worry as Ohio is only two states over.

Alas, Dec. 18 came and still there was no package. I went to the UPS site and saw in large letters the word, "Exception;" there was a flight delay due to mechanical reasons. My package had not yet left its original location and instead was loaded onto another plane—one which first needed to go to Chek Lap Kok, CN, before finally landing in Holbrook, N.Y. Chek Lap Kok? I Googled Chek Lap Kok, CN, and realized that CN is short for China, not Cincinnati. No doubt, I should have paid more attention during my geography classes.

With my frustration level raised to high, I called the automated system at Apple and yelled into the phone, "I want to speak with a live person!" I soon found myself explaining to the live person that the plane in China had broken down, that Chengdu is not a suburb of Cincinnati and began to question how in the world I was going to get my iPad in time? I was calmly assured that another iPad would be shipped to me and that I would receive it in two days, on Dec. 20.

> "My suggestion is **THAT APPLE CONSIDERS USING PCS** in their call center."

"Are you sure of this?" I asked.

"Yes, Mr. Dolber, no need to worry," I was told. "You will have your iPad in time for the holidays."

I received a tracking notice, this time from Fedex. The item was picked up on Dec. 21 and, a day later, shipped to Anchorage, Alaska. At least this time the iPad was in the United States—this I was sure of!

However, Dec. 23 came and there was still no iPad. I called the automated system at Apple once again—"I want to speak with a live person!" I am assured I will receive the item the next day, Dec. 24.

I asked the live person at Apple if their phones were tapped.

"Oh yes," she said, "we use it for training purposes."

"Does your supervisor listen to the calls?" I asked.

"Yes, he does, sir."

"Does senior management listen to the calls?" I probed.

"Most definitely," came the reply.

"Excellent! Then I have a suggestion for all who are listening."

"Ok, sir," she said, tentatively.

"My suggestion is that Apple considers using PCs in their call center."

It is not hard to provide service excellence when everything goes according to plan. It is when things do not go according to the script that out-of-the-box thinking is required and a company's commitment to service excellence—both in words and in action—are put to the test. Had Apple been proactive about possible roadblocks in delivery time, or simply honest to its customer about what was occurring, I would have been better able to navigate the situation. Instead, I was given the run-around and in last-minute haste, amidst the chaos of holiday shopping mayhem, had to buy another iPad at a local retailer.

There have been times at our firm when business takes a turn we didn't expect. It is in those instances that I continue to encourage all advisors and staff members at American Portfolios to think outside of the box and do whatever can be done to best service the client. My original iPad did eventually arrive on Tuesday, Dec. 28, three days after Christmas; the ultimate irony, however, was that my wife would have preferred a nice piece of jewelry than the device. Better luck for both Apple and myself in 2011!

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You're A Business Owner … So Act Like One

TEXT BY
Joby Gruber

BY THE TIME you receive this issue of FREE, I will have been affiliated with American Portfolios for approximately nine months. One of my initial takeaways during these early days is the value that FREE has to you, the reader. It is not the normal "corporate speak" document distributed by many of our peers. It does not have the look or feel of the traditional annual report or operational document utilized in the financial services industry. It is, in fact, an inside look at what makes American Portfolios, well, American Portfolios. FREE provides insight into the thinking of senior management and looks at the day-to-day issues facing our affiliated colleagues and the positive impact they have on their clients. All of this makes penning my initial article for FREE somewhat of an interesting task. To that end, I wanted to share with you the approach I will be taking in preparing this quarterly column. My end goal is to provide you with topics of discussion that make you go "hmmm," just like the segment Arsenio Hall had on his former late-night talk show. The purpose is to challenge your current thinking with respect to aspects of your business and, ideally, to create a dialogue between the field and home office on the topics discussed. Here are some of my thoughts regarding this industry, just to get us started:

1 **I do not like the term "rep."** In fact, I find it disrespectful. I prefer "advisor." "Rep" reminds me of door-to-door sales people "repping" their products. I recognize this will cause heartache with the compliance staff since the regulators have historically limited the term "advisor" to professionals that charge a fee. One of my goals is to eliminate the use of "rep" at American Portfolios entirely.

2 **In addition to being advisors, I like to view each of you as business owners.** You can be great financial advisors, but if you are not equally successful as business owners then our relationship has the potential of being short-lived. The services we provide you should support you as financial advisors and business owners. For example, broker/dealers do not have commissions departments; they have cash flow departments, since it is timely cash flow that drives your business.

3 **A successful broker/dealer is like a three-legged stool.** Each leg is necessary to support the stool. In the case of our broker/dealer, the three legs are the home office in Holbrook, the affiliated advisors in the field, and both the vendors and focus partners we utilize. In future correspondence, I will provide some thoughts on the best ways to leverage these relationships.

With all of that being said, let's now focus on one of my other favorite topics—the advisor as the CEO.

Over the years, advisors have often asked me what they can do to become a top performing advisor. My answer has been that there is no one thing that can make the difference. Too often, we tend to look for the easy solution—a silver bullet, a golden hammer, the secret sauce—that will magically transform our world.

By my observation, in real life, there are a number of things that when performed diligently and consistently, separate the top performing advisors from all the rest. First, these advisors are client focused. Second, they think independently. Third, they focus on growth. Top performing advisors who are building capacity for growth leverage others. To differentiate themselves, they highlight their unique processes. Finally, they understand that they are business owners running their companies; they think like CEOs.

That last point, thinking like a CEO, is a good place to start.

Strong leadership is at the core of a thriving practice. In this competitive marketplace, putting your practice on autopilot isn't an option. Just as corporate boards expect more of their CEOs, clients these days expect more from their financial advisors. Clients want to work with investment professionals who can both simplify their lives and address the full spectrum of their financial needs. To do that you must have a strong team in place and keep an eye on the bottom line. That's not such a tall order and it will pay off. When you become the CEO of your own practice, the sky's the limit for success.

Again, calling yourself the CEO and functioning like the CEO are two different things. As Moss Adams Wealth Advisors CEO Rebecca Pomering points out, the simplest way to look at this is the CEO's role is strategic and outward facing, with operational and inward facing responsibilities being handled by the COO. A CEO's responsibilities include strategic planning, sales and marketing, cultivating external relationships and exploring potential mergers and acquisitions; whereas, a COO focuses on operations, compliance, technology, human resources and facilities management.

When you see the roles of CEO and COO separated in this way, the differences become all too clear. So your argument back to me will be that you have limited resources (monetary and non-monetary) available to make this transformation happen. I could not disagree more. Many of the most successful advisors I've had the pleasure of knowing over the last 25 years have built their organizations by making the transition from COO to CEO.

To help along these lines, I offer the following book as a guide and resource—*The Slight Edge* by Jeff Olson. The back cover of the book states that, by reading the book, you will learn how your philosophy creates your attitude, creates your actions and creates your life. Admittedly, it's a bit of a "cheesy" read; still I strongly recommend it as a tool to help with your COO to CEO transformation.

I look forward to hearing your comments. Until our next issue…

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FEATURES/

What does an arbitrator, a manager, a financial planner and a client have in common? For one, they are all individuals featured in this issue of FREE who possess a sound constitution in the way they conduct their business and personal lives. Second, they have touched American Portfolios (directly or indirectly) in a positve way.

KELLY M. LONERGAN

TEXT BY
Rebecca Dolber

AS VICE PRESIDENT of affiliated colleague Ted Turner's company, Turner Corp., Kelly M. Lonergan of Osterville, Mass., is an arbitration and mediation specialist for the Financial Industry Regulatory Association (FINRA), a mediator for the Cape Cod Dispute Resolution Center in cooperation with the Massachusetts Attorney General's Office, and is certified by the Supreme Court of Florida as a county mediator. Sound like somebody you'd like to learn from? We thought so…

FREE: **Kelly, you are both a mediator and an arbitrator for various bodies, including FINRA. To start, can you explain the difference between mediation and arbitration?**
Kelly M. Lonergan: When you sign a new account form at a brokerage firm, you also sign an arbitrator dispute clause which states that you cannot sue your broker or the broker/dealer in a court of law; you must go to a source of arbitration, which usually is FINRA, but could also be, say, the American Arbitration Association. Before beginning that arbitration, you have the ability to try and mediate. If you don't elect mediation, or if you elect mediation and it's not successful, then you must go to arbitration, which is final and binding. Anything under $50,000 can be decided by a single arbitrator who will either show up at a meeting and decide, or review paperwork submitted by both sides and render a decision. What happens most of the time, because usually the claims are rather large, is that there will be a panel of three arbitrators with one person serving as the chairman. I'm a qualified chairperson, currently chairing 10 cases for FINRA.

FREE: **Wow, that sounds like a lot at once?**
KL: That is a lot to have going at one time. I was assigned to 21 cases this year alone.

FREE: **How do you get picked for something like this?**
KL: Mediation cases you get called upon, arbitration cases you get assigned to. What's interesting is FINRA's not taking new mediators at all, so if you didn't make it back in the late 90's, you're not getting on. It's almost like a country club; you have to wait for somebody to die for there to be an opening!

FREE: **What's the best piece of advice you can impart onto AP's rep field force based on your experience mediating and arbitrating?**
KL: The new account form is your first shield of protection in arbitration. If a customer's going to complain that you sold them something that wasn't in their investment objectives, having the signed account form is the first step in defending yourself. Keep notes of meetings when talking to a client; make a note of what was said because when you have a lot of clients, it's hard to remember every single word, especially, over a period of years. I think the most important thing is to pay attention to what their needs are, pay attention to what they're telling you and get it in writing. Make sure you get a prospectus receipt. Make sure you do everything you can to defend yourself in the event that this should ever happen to you. People take it so lightly, but it's not. It's expensive. The forum fees are huge, which is how the actual arbitrators get paid; through the forum fees. Attorneys are expensive. Then you've got conference rooms, days out of work where you're not producing and they can subpoena any registered business partner of yours and drag them in, too.

FREE: **What's the most common complaint that you hear?**
KL: Most of the claims, whether they're mediation or arbitration claims, occur when the market goes down. People get annoyed; they don't want to lose money and that's why it's so important to have that paper trail in front of you.

FREE: **How do you feel about regulation that could be coming down the pipeline?**
KL: At the moment there's a lot of talk about reform and instead of going after one root cause or trying to make one thing correct, it seems like the current political administration just blasts a little bit at everything, not really completing anything. I would rather see something more targeted and more focused. Try to complete one thing at a time.

FREE: **It seems you would know. You've accomplished a lot over the years – you must love to work!**
KL: I do love to work and that's why I was on the board of directors for VSP (Vision Service Plan) for so many years, even while I was working with Ted. It was a challenge for me, something totally different. The world of optometry is akin to the world of finance and I liked having the ability to do a bunch of different things underneath a corporate shell.

FREE: **What was your role at VSP?**
KL: I served on the governance structure and on the board of directors for eight years. I first came on as a committee member for quality care and health care services and nine months later, I was voted onto the board of directors. I was also chairman of the compensation committee while VSP was celebrating its 50th anniversary. VSP had gross revenue in excess of 3.6 billion while I was there in 2009. They only had two CEO's in 50 years, and the second announced his retirement during my tenure. I was on the search committee to find his replacement, which we did, and I negotiated the new CEO's contract—of course, with the help of consultants. I basically served on every committee VSP had.

FREE: **What did you like about working with VSP?**
KL: I think the most gratifying part about being a director at VSP was that out of a board of 15, I was the only female and one of the few who wasn't a doctor. The way their [optometrists'] practices operate is not all that different than the way independent brokers operate; I mean, they have different equipment obviously because they're optometrists, but they run in the same way. In other words, they have an agreement—a network panel agreement—that they sign, just like reps sign with AP. They're not franchises. They're all sole proprietors, so, it's all of their business which really helped me identify with them and also try to help the network doctors out, because corporate doesn't want to help them… corporate just wants more money out of them. It was a good challenge.

The new account form is your
FIRST SHIELD OF PROTECTION
in arbitration.

FREE: **You've been described as a strong willed woman. Would you consider yourself a feminist, Kelly?**
KL: Not necessarily; I am a humanist. I think people should be treated well and that people should treat other people well. I am a very strong willed person, there is no question about that. I believe that everybody has the opportunity to be what they want to be, and gender should not deter that. I am an only child—half Norwegian and half Irish—and I guess I just came out of the womb this way. You have to make your own happiness and make your own way, and very few people have their way made for them.

FREE: **What's the best piece of advice anyone's ever given you?**
KL: Never give up. If you believe that you're right and you think that you can accomplish something—if you believe in yourself, have the will power and you truly believe you can get it done—chances are, you probably will… find a way.

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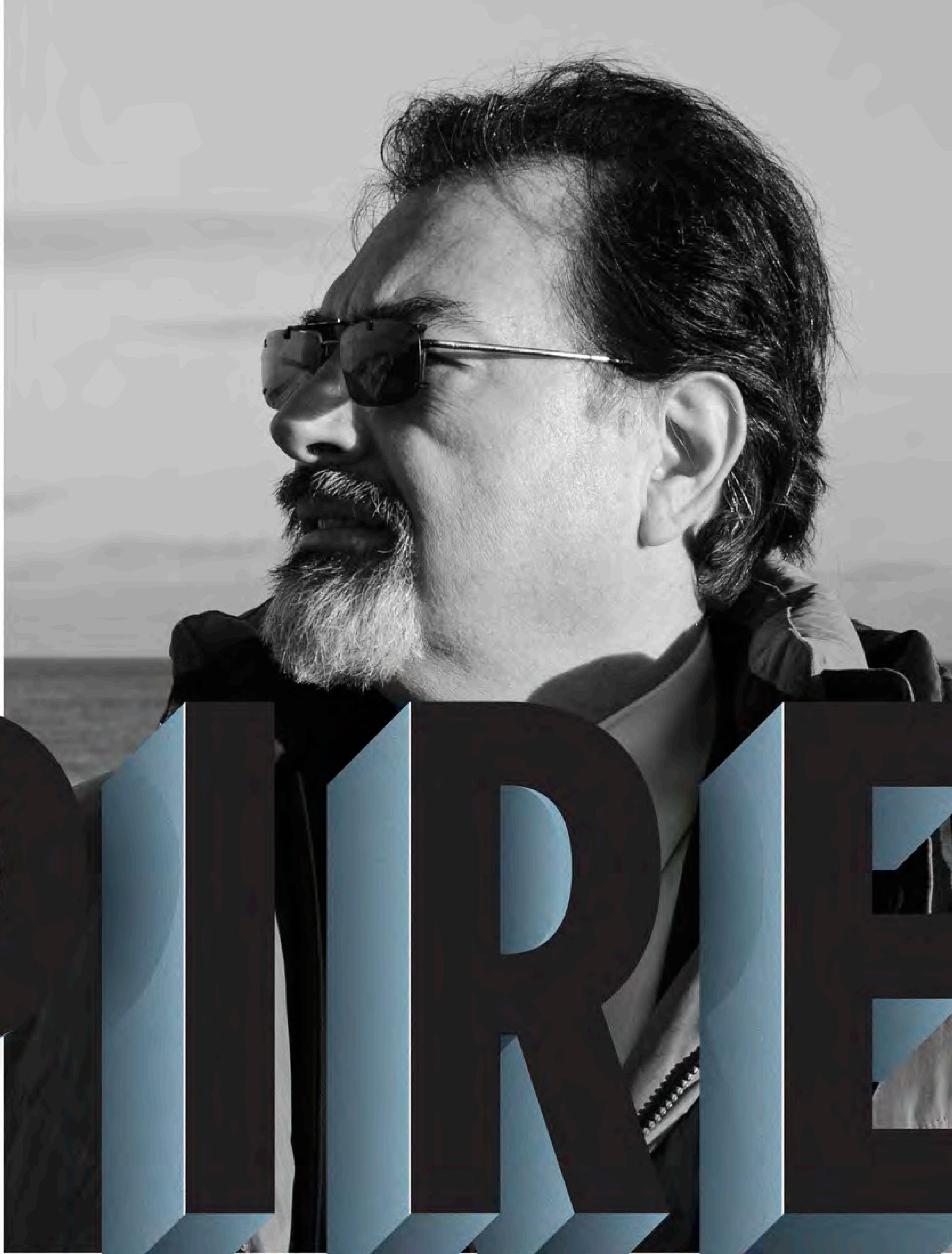
STANLEY ALTERMAN BOARDWALK EMPIRE

TEXT and PHOTOS BY **Rebecca Dolber**

THE BOARDWALK IN Asbury Park spills out along the Atlantic like a Hollywood red carpet reception. Many in pursuit of dreams have walked its thick planks, steadily placing one foot in front of the other, their thoughts wrapped around their next big idea. Stanley Alterman, one of the largest and most profitable managers at American Portfolios Financial Services, Inc., leans against the railing, staring out over a city in which the past and future converge at the present. Looking north you'll see the Paramount Theatre, built in 1930, currently under renovation like much of the town in an attempt to revitalize the shoreline. Walking down Main Street, you'll see trendy lofts set amongst beautiful, old brownstone buildings. Some streets are lined with turn-of-the-century Victorian mansions; others with open lots plowed over to make way for new high-rise, luxury condos. You'll see stone statues of condemned buildings; unfinished projects, abandoned by those who lost sight of the dream to build something bigger than themselves.

STANLEY ALTERMAN, HOWEVER, IS NOT ONE OF THOSE PEOPLE.



The son of a shoe salesman, Alterman was raised in Sheepshead Bay, Brooklyn. His older brother continued the family business, opening shoe stores in and around the borough they called home. His older sister, however, worked as an assistant manager at a financial services firm on Wall Street. As a 13-year-old boy, Alterman can remember visiting his big sister.

"When I walked into that office, the aura was fantastic. The carpeting was blood red and there were mahogany desks. There were the sounds of the tickers; they were just coming out with Quotrons then. I knew the kind of money these guys were making, knew the kind of cars they were driving, knew the kind of clothes they were wearing and I knew the kind of lifestyles they were living. I also knew the kind of lifestyle my father had, and my brother had, and I said, 'not for me.'"

After graduating from Brooklyn College in 1979 with a degree in economics, Alterman chose not to join his father and brother in the shoe business, but rather to follow in his sister's footsteps. He sought out a company to sponsor him for his series 7; but to his dismay, no one would take him on.

"I tried my damnedest to get that 7, but no one wanted to sponsor me. Bob Rundback ran an ad in the New York Times back then, so I went to him and asked if he would sponsor me for a 7. He said, 'no, we don't sponsor for 7's, but we sponsor 6's. Here's your study material; pay me $60 and welcome aboard.'"

Rundback was a manager at First Investors and helped teach Alterman how to survive in the business. He made him cassette tapes, which walked him through answering objections and dealing with clients.

"They were pioneers back then," Alterman said of First Investors and Rundback. "Later on, when I went to Bache, they gave us the exact training tapes that Bob made. They were copying the methods of the guys at First Investors."

Alterman stayed with the firm at 2 Penn Plaza until 1981. But it was the same office that captured his interest as a 13-year-old, while visiting his sister, that ended up sponsoring him for his series 7 exam as an adult—Phillips, Appel & Walden. He stayed with the firm for a few years until he was recruited to work at Bache, which inevitably led to a relocation to Philadelphia to work for Prudential Bache. Alterman lived in central Philly and, in his words, "had a great time as a single guy." But a fortuitous trip home to visit some buddies led him to meet his future wife, Robin. In the name of love, Alterman left Philadelphia to be with Robin in New York and, as fate would have it, stepped away from direct sales to work as a bank manager for an investment program called Invest. In a few short years, the Invest program grew to be the second largest producing investment division in the country, and while the bank that housed it is now gone, Invest still exists as the broker/dealer.

While he kept a few of his personal clients as a producer, Alterman seemed to have found a knack for managing; his naturally organized and meticulous manner was an asset to the job. He left Invest to manage as an employee of Integrated Resources. It was there that Alterman began to build his business, taking on brokers with Integrated, and managing offices in New York, New Jersey and Pennsylvania. When the company disintegrated, he became an independent manager with Royal Alliance, continuing to take on more and more reps. At that point, however, Alterman began to realize that servicing his existing book and managing full time was something he no longer wanted to do.

"I couldn't stand dealing with clients on a daily basis. To have a really good book of business, you should have maybe 175-275 clients or households. I don't want to deal with all the personalities and all the problems, the tribulations and the family members of the clients. I used to give clients my home phone number and they would use it—for a friendly chat on a Sunday afternoon while the football game was going on. I liked these people, but I wanted my own life."

In the mid-90s, he took all his accounts and gave them to his brokers.

"I told my clients, 'my producers are going to be more attentive to you than I can be. They work on the portfolios daily, where I don't. They'll do the job right.'"

Separating the job of manager from producer became one of Alterman's business philosophies—one he holds his own brokers to.

"[Producing] Managers would do so much better if they gave up their managing and just went into production. In fact, one of my producers had brokers when he came on with me, and I said to him, 'lose the producers; give them to me and go produce. How are you going to review accounts, review e-mails, talk to your brokers about production and then go to see your clients with a clear head?' We talked a great deal about it, but finally he gave them up."

> [PRODUCING] MANAGERS WOULD DO **SO MUCH BETTER** IF THEY GAVE UP THEIR **MANAGING** AND JUST WENT INTO PRODUCTION.

In addition to those responsibilities, there's also the time managers must spend on the computer reviewing trades. So much of Alterman's job revolves around keeping himself and his brokers compliant. Admittedly, much of his day is spent on the computer, reading.

"I spend so much time on that computer system just reading e-mails, reading what's going on in the industry, reading stuff from FINRA, reading stuff from the firm; it's incredible how much time you have to spend reading. It'll make you go blind. We're at the point now where we have so many e-mails coming in, so many new accounts coming in, so many new trades coming in, that I'm basically in front of the computer from early in the morning to later at night. I know you can't successfully produce and manage; you really can't."

Managing at APFS since he transitioned from Royal in 2004, Alterman has brought this business philosophy—as well as other brokers—with him to the firm. As part of CEO Lon T. Dolber's open door policy, Alterman often bends Dolber's ear, offering his opinions and ideas about what the firm can do to improve its standing.

"I can say anything I want to Lon or Tom [Wirtshafter, APFS president], good or bad, and they'll take it, swallow it and send it back to me. If there's something in my office that they don't like, I will get a call from them and they're brutally honest. The relationship I had with senior management at Royal Alliance is the same I have here. I had direct communications with Hy Cohen, Art Tambaro and Fran Hayes, and I have that here. I have Lon's home and cell number—the same with Tom—and you know, it really is very helpful."

According to Dolber, part of what makes Alterman's Neptune, N.J., OSJ so successful (it is the second largest producing OSJ to date at APFS) is his unwavering demand for pristine compliance from his brokers, a standard he also holds himself to as their manager.

"As a manager I would say I'm easygoing, but I'm very compliant and want things done right the first time. I've been doing this for 25 years and haven't had any arbitrations. You know when something is not right. You recognize that what somebody is doing may legally be ok, but it's not really ok. I'm always looking first to protect the client, then the broker, then myself and then the firm.

One of the tools American Portfolios provides Alterman, which helps him stay on top of issues, is the homegrown STARS managing system, designed to tie all incoming broker/dealer client information, new account registrations and associated transactions together for the purpose of distributing the supervisory review and reporting responsibility across the entire organization, as required by industry regulation. Managing more than 45 individual representatives in his OSJ, Alterman praises the technology.

"STARS really works; other B/Ds don't have something as good, they really don't. It's great, the best tool, and it actually identifies new trades, transactions and New Account Forms for me. Any errors will pop up on the screen and show me that something is wrong or missing."

In the past, Alterman recalls having to look at multiple screens to know if something was incorrect with a trade or an account. With the STARS managing system, managers are alerted if something is missing, left blank or seems awry.

"The only thing I could say that STARS does not do is approve the new accounts for me," he says with a laugh.

Aside from the STARS system, Alterman will readily admit that the main reason he's decided to stay with American Portfolios is because of Dolber.

"Everybody is at the company because of Lon. I've seen him in action, seen him in meetings … he carries himself well. He says what he's supposed to say, he shuts up when he's supposed to shut up and I have a lot of respect for that."

Most recently, Alterman praised Dolber for his recent hires of Director of Operational Project Management Maria Zarb and President of National Sales and Marketing Joby Gruber, recognizing that these additions will help improve the scope and depth of the B/D tremendously. "Maria Zarb, she's a pit-bull. She'll be a fighter for AP and is really good at what she does; I like her a lot. Lon had really good picks this year, hiring Maria and Joby. I have a lot of faith in the company moving forward."

And moving forward is always a bullet on Alterman's agenda. He's looking to grow his OSJ with the help of an outside recruiter in 2011, bringing more reps into his circle of financial professionals. Admittedly, he has the same hopes of expansion for the surrounding Asbury Park area.

"My wife and I just joined the Revision Theatre Company this year to help bring theatre back into Asbury Park. This used to be a vibrant city, but then it became a slum."

Looking out over the boardwalk, he points to the different areas of the city where you can blatantly see the transformation. "We're hoping to help them rebuild the city block by block. We had famous people put money into the buildings, but that effort failed because the town wasn't into revitalizing the waterfront; the investors lost a lot of money. Thankfully, waterfront redevelopment corporations have taken over managing the waterfront and opening up the Paramount Theatre again."

He proudly points to the area at the end of the boardwalk.

"We live in cities where the preference is to knock things down and rebuild something that might not be as nice or as quality as something built 100 years ago. But here they are taking old, beautiful buildings and, instead of knocking all of them down, they are being rebuilt to their old grandeur … I don't like needless destruction."

And so it is the hope that such an attitude, especially in an uncertain economic climate, will enable both Asbury Park and Stanley Alterman to continue to prosper, grow and build through

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What do you get when a YANKEE, WESLEYAN UNIVERSITY FEMINIST TRAINED GRADUATE moves to the DEEP SOUTH?.

LINDA GRANT SMITH

WHO'S BREAKING *A FEW CUSTOMS* BUT FITTING RIGHT IN

LGS

Text *and* Photos by Melissa Grappone

FREE: **So tell us how you got started in financial services?**

Linda Grant Smith: I was an advocate for children with disabilities in my first paid job out of college. I think that really shaped the financial planning portion of my life. I had a boss who had cerebral palsy and she taught me that if you create a circle of people around the person with a disability, you can get that person's goals met by relying on everybody around them to help. It hit close to home because I have a sister who's mentally disabled. It was then I decided to work with Prudential in their management training program. My father, who was a career agent with Farm Family Insurance, was not happy at all about that, so I interviewed with the Farm Bureau instead.

FREE: **You graduated from Wesleyan University?**

LGS: Yes, I majored in Russian studies and even lived in the Soviet Union for six months, right when Gorbachev was being encouraged to take down the wall by President Reagan.

FREE: **Russian studies to the insurance business—that's quite a transition.**

LGS: Yes, I graduated college in '87 and became an insurance agent in '88. Then I went into management and ultimately went on to manage my father's practice.

FREE: **So I guess you could say you followed in your father's footsteps.**

LGS: Dad was a Farm Family agent since 1971. He had his own practice and I had mine. He was in the Norwich, Conn., area and my clients were in New Haven. But I used my practice to seed others in their practices and became their manager; then I co-managed with my dad. You see, Dad had a heart attack and decided that he needed to scale back, so I joined him in his practice. Then, in 1997 I bought his practice.

FREE: **How did you get involved in the investment side of the business?**

LGS: Farm Family was about P&C and life insurance, but then they wanted all their agents to get securities licensed. That's where American Portfolios came in [before becoming the broker/dealer] and did all the training. Then, through some unintended circumstances, a rookie agent I hired at the time challenged me to get my CFP. When you become a Certified Financial Planner, your thinking shifts from the product to the person. I could no longer represent Farm Family. That's why I left them.

FREE: **And how did you wind up in Tennessee?**

LGS: My husband wanted to settle down south—where it's warmer—when he retired from the police force. So we flew to Nashville, rented a car and drove to Alabama; that's where he wanted to go. I didn't like Alabama at all but we had to drive through Middle Tennessee with all the rolling hills and farmland to get there; it was beautiful. We came back three more times and, through a buyer's broker, found 100 acres of land with water on it in Centreville, an hour and a half southwest of Nashville.

FREE: **So you built your own house?**

LGS: That was no small task. I was the general contractor. It's easy when you know the contractors and the subs; it's not when you're a woman down here in the south. I'd be trying to take care of something and get responses like, "I'm sorry ma'am, wha'd you say? Put your daddy on the phone." I did the painting, my husband did the plumbing and my father has been doing all the trim work. It's almost finished but I ran out of money—college tuition for my sons came up.

FREE: **Ah, you have sons. What's it like living in a house with all males?**

LGS: As my mother says, I live in a man cave.

FREE: **How do you think your son's view you?**

LGS: They view me as a business woman—I'm certain of it. You want to know why? Because when I had my office in my home, they used to have to make an appointment to see me; otherwise they would be interrupting me all the time.

FREE: **Please share what it's like going into financial planning as a woman.**

LGS: I think it's an advantage. Financial planning espouses education as part of the process and women buyers like to be educated before they make a decision. And for a lot of my clients, the woman comes to me first, then brings her husband because he doesn't think he needs any help.

FREE: **And as for the men, how do you deal directly with them?**

LGS: Networking in the south is a little bit harder for me because so many things are being done out on the golf course and I don't play golf, or in the men's club—they actually have men's clubs here. I've never been invited to speak at one, but my male colleagues here in town have.

FREE: **You sound resigned to the ways of business down south.**

LGS: I tell you, I was so afraid of being labeled a Yankee and being the outsider. What I found was

if you actually embrace it, it's better and more fun that way. I'll always be the Yankee here. I don't need to be the same to fit in.

FREE: **Explain why you had to leave American Portfolios.**

LGS: In Tennessee, I had no job, no office, no staff, not anything. I thought, I'm not going to be able to make any money here. All my clients in Connecticut were transaction based and I had just started getting into planning. I needed a stable structure here— support already built in with contacts. How was a Yankee woman with a New York firm going to get by in the south? So I interviewed with a firm called TrustCore®. I had 11 interviews before they would take me on.

FREE: **Was this the only financial firm around?**

LGS: They were in Nashville and more focused on financial planning; that's why I was interested in them. After I affiliated with TrustCore®, I stopped all transaction-based business to do planning and fee-based business. That was quite an abrupt changeover, not to mention the hour and 45 minute commute to the office. I asked them if I could set up an office in Columbia on their behalf and they agreed.

FREE: **So when you set up this office it was just you?**

LGS: All the staff was up in Nashville. I paid a monthly fee for access to staff. I asked for an assistant here locally; they said the economy was bad, assets were down and they couldn't afford another assistant. I thought, but I'm paying for an assistant monthly just like all my colleagues are and I'm not getting the help. So I came back to American

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Portfolios. I never lost the connection with George Elkin, my supervising principal. Now, I have my own office in a space that I sublet from a CPA with my own staff person.

FREE: **What was it like coming back to American Portfolios?**

LGS: It's very refreshing to be back. I went to the Indianapolis regional conference. What I loved was I knew the East Coast American Portfolios, but got to meet the Midwest American Portfolios. It's changed. It's like an amoeba in that you can keep the same culture when you've got all of these things pulling in. It's been over a year since I came back to AP and, interestingly, my Tennessee clients told me I changed. They said before I created a gap between them. They feel closer now. I think it's because I'm more comfortable at American Portfolios.

FREE: **What value does your B/D bring to your practice?**

LGS: It would be what I refer to as the four "F" words. First, it's freedom—the freedom to build the practice that you want. Then there's flexibility. Previously I wouldn't have been able to work from wherever, but American Portfolios is plug-and-play and all Web based. Third is flow—AP is always flowing in a direction to accommodate the group. And finally, fun. I've never had such a compliance meeting as we had with Tony Montoya. [AP General Counsel] Frank Tauches was awesome.

FREE: **Tell us about your clients and your practice.**

LGS: The first time I was at American Portfolios, I was doing more transaction-based [business] for about 300 clients and not really any planning. My clients saw me as the product lady. And so moving to Tennessee and having to redefine who I was. I wanted to be the planner lady; specifically for business owners. I only invited the clients who wanted a planning relationship to continue with me; of those 300 clients, eight signed on for planning. So, now all totaled, I have 32 clients who are all fee based. This year, more Tennessee clients came on than ever before; it's about 50/50 now—50 percent in Connecticut and Rhode Island, 50 percent in Tennessee. It's a big difference from 300.

FREE: **How has your insurance background helped you build your niche for catering to business owners?**

LGS: I think insurance has been great preparation for this because on the property and casualty side you're dealing with values on property and real estate, and loans associated with that. Then when you're writing a business owner's policy, you're dealing with the profitability of the company; you've got to insure against loss due to fire, loss of profit, loss of revenue and overhead expense. With Farm Family, they insure business owners who are farmers. It was a great foundation. My first clients in Tennessee were in a farm related business. They have a retail farm store now and spun off from a tractor supply company they worked for. We talk about all kinds of things though—about their numbers for the month, how they can refinance some of their debt or marketing initiatives they'd like to implement.

IT'S LIKE AN AMOEBA

in that you can keep the same culture when you've got all of these things pulling in.

FREE: **How did you build your client base in Tennessee?**

LGS: I had speaking engagement opportunities. I'd do seminars at libraries. And then a product vendor recommended me to people in Tennessee because she thought I had a lot of integrity when we worked on a previous case together.

FREE: **Do you network with other professionals to get business?**

LGS: I do. I'm the treasurer of the Rotary in Columbia—the first woman ever to hold the position in 100 years. Without those other professionals here I probably wouldn't have any clients. Like with Jimmy Hughes, the CPA who I sublet space from; we had one client in common and then he referred me to somebody else because we had a similar situation.

FREE: **What are you doing to create new opportunities to expand your practice?**

LGS: I'd like to do more close-knit client events so they can invite their friends who are just like them. The topics would be small business related, rather than economic. For instance, it might be about a marketing idea on what they can do to enhance foot traffic in their retail store operation.

FREE: **Do you have an investment philosophy?**

LGS: Yes. It doesn't all include securities, though. Because so many of my clients are business owners, I try and diversify income streams for them. One of the ways I might do that is through rental property. I don't get paid on rental property, but I do think it's a good part of a portfolio. And then on the investment side, I like to work with firms that look at the macroeconomic and demographic trends going on in the world that do a stock evaluation following those trends; I look for firms who are tactical in their approach.

FREE: **Do you look at a firm's performance and their track record?**

LGS: For sure. I also look at references. When you have someone saying that for the past 20 years a manager pulled their institutional clients through some tough times, that's pretty powerful.

FREE: **What is your passion?**

LGS: People are my passion. It lifts my spirit to be around people and to be connected to them and be meaningful in their lives. That is my gift.

FREE: **Where do you see yourself in five or 10 years?**

LGS: I'm going to be a public speaker who travels the country, although I don't know on what topic yet. I want to have a thriving financial planning practice based on serving the business owner; I really enjoy training people and seeing people employed, so that will be part of the picture. And I want to help my husband get his pilot's license. That's the 10-year plan. And, of course, definitely staying with AP.

FREE: **It's nice to have you back, Linda.**

LGS: It's nice to be back.

KAREN

SHAPIRO

A fashion art director and creative consultant, she exemplifies *LIVING LIFE TO THE FULLEST.* From her *fastpaced career and her travels to Europe*, to her *passion for culinary arts* and a new business venture, the client of APFS affiliated colleague Jane Desmond welcomes challenges, and the many benefits and life lessons that come with them.

TEXT BY
Shauna K. Faulkner

FREE: **How long have you been in the fashion industry, and how did you get started?**
Karen Shapiro: Oh gosh, about 25 years. It's so funny, I never even knew that such a thing as an art director or creative director really existed. My background before this business—my schooling and interest—was architecture, industrial design, interior design, large-scale graphics, along those lines. I moved to Texas after meeting my (now) ex-husband many years ago and one of his best friends was a general merchandise manager at Neiman Marcus; I was looking for a job and he asked if I was interested in art directing. I had to ask what that was! After explaining it to me, I figured why not give it a chance—my life had been very interesting up to that point as it was. As it turned out, the people at the company liked my portfolio, which had nothing to do with fashion, and were willing to take a chance on me. Really, the creative director at the time was extremely wise and knowledgeable in understanding that one's creative eye can work in many different fields. I was given the opportunity for this new career and it certainly proved successful for both them and myself. I've been doing it ever since!

FREE: **What does the job of a fashion creative/art director entail?**
KS: What I do is a lot of photo art direction, which means that I direct photo shoots, oversee and direct the models, photographer, stylists, assistants, the hair and makeup people—literally everyone—to make sure that we are producing the end-result the client is looking for. After we shoot many, many captures per look, and per outfit, I edit it down to the one shot that people see either online or in catalogs. Essentially, I do branding for companies, both in Europe and in the United States, dealing with the overall look of a particular company and making sure that their corporate identity—their advertising, their books, everything they do—has a particular look and stays consistent.

FREE: **Has it been a challenge for you to make that transition from print to Internet-based production?**
KS: Well, the Internet and e-commerce have been around for a number of years now and is far more prevalent in the work that I do, but it was an interesting transition when it first started happening. It's nice to have the variation that comes with such production—it's a lot more fast-paced, everything moves more quickly. For example, in the past it could have taken six to eight weeks to finish production on my end; now it could be a day or just a couple weeks.

FREE: **What do you miss most about print production?**
KS: I would say I miss the location shoots where there's a lot of problem-solving—due to weather or something. Mostly, I miss working with film; everything now is very immediate. But like most change, there are the parts I miss and the parts I don't. After all, the trade-off for going digital is pretty decent, and I still get to experience all aspects of a shoot that I always have; I still do some location work and remain involved in the production process from beginning to end.

FREE: **Talk about your passion for cooking.**
KS: About seven years ago I was somewhat unsettled. I had led a wonderful life as an art director—I'd traveled all over, had many interesting experiences and met a number of great people—but the work alone just wasn't fulfilling me anymore. This, along with some personal extenuating circumstances, led me to feel that I needed to make a change. I traveled to Scotland with my brother with the intention of buying a pub. As it turned out, it was not a good time for private people to own pubs, as all the breweries were taking over the businesses and creating quite a struggle. I then thought about the pub that I loved most in Scotland and how it had a wonderful chef and delicious food. I came to the conclusion that whatever direction I took, I was going to need to know how to cook. At that point I went about looking for the best culinary school; I traveled to Paris to look at Le Cordon Bleu and a few others, but ended up finding that the French Culinary Institute in New York was actually the best for me because it had more modern presentations and, in my profession, presentation was extremely important. I attended school at night and continued to work photo shoots during the day; along the way, I found that what had started as a task to accomplish something greater (cooking) had become a passion. It was ultimately this that led to my current travels.

You learn a lot about yourself when you're in such a different situation without much of a support system, so YOUR CREATIVITY REALLY HELPS IN SOME WAYS.

FREE: **And those travels led you to Paris?**
KS: Yes, when I graduated, I exchanged my apartment with a woman from Ile St Louis—one of the two islands in the middle of the Seine in Paris—to celebrate. While there I felt very comfortable and even had several business ideas. After returning to New York, I realized how I had always wanted to live in another country and learn another language; I decided I had nothing to lose and decided to just pick up and go to Paris. I wanted to see how I would fare on my own, what life I could find or make there, and experience living in another country. While there, I actually apprenticed with a master chef. It's been five years now since I made that change, and for the last three I've been living between Paris and New York. I have my New York life and my French life, and both have brought me so many wonderful experiences. I just kept staying open to whatever came my way; all of this led to what's potentially going to be another life change when my Italian friends and I finish putting our business together.

FREE: **What is this business you and your friends are starting?**
KS: Last year, my very good friend from Italy, Francesco, and his boyfriend had come to Paris; while together, we came up with an idea for a business involving the Internet. After much research, the idea and plan has evolved into what we are doing now. It's potentially a global idea and is something we are very excited about. Unfortunately, it is still patent pending so I can't say a lot, but it is at the core of globally-based advertising. Like everything else in my life the last couple years, my gut has led me into some very interesting and wonderful experiences, and I couldn't be happier to have such wonderful friends with me on this adventure.

FREE: **Sounds exciting. Going back to your travels, did the risk of moving across the globe teach you anything?**
KS: It's funny, everyone that I talked to about this has said how brave I was, but to me it wasn't a question of bravery at all; for me, it was a matter of having to do it, of knowing that there were all these wonderful trade-offs for the difficult times that would come ahead. The most important thing I learned was that I am a strong person, that I can make things happen, that I am an easy traveler in this big world of ours, and that home is where the heart is. You learn a lot about yourself when you're in such a different situation without much of a support system, so your creativity really helps in some ways. You make the most of it and try to enjoy every experience for the wonderful journey it is.

FREE: **You have been with APFS affiliated colleague Jane Desmond for a number of years. Does your relationship with her make the risks you take seem more tolerable?**
KS: Oh absolutely. Knowing Jane is in my corner gives me a level of comfort in more ways than you can imagine. I mean, gosh, we've been working together for about 20 years now. There's never been a doubt about my relationship with her, both from knowing her business views and getting to know her as a person. I'm sure that everyone who works with her must feel the same way; she's more like a family member who wants to know your views and cares about what you do. Really, she wants to help enrich your life. She is just tremendous, and it certainly does make things a bit easier and less hectic to have her on my side.

FREE: **It sounds like you lead such a busy life! Do you ever have free time? How do you utilize those rare moments?**
KS: (Laughs) That's a really good question! I love to cook, I love to eat, I love to be with people and, even with my constant trips back and forth between Paris and New York, I still love to travel. I would still love to see every place I've never been—Asia, South America, Argentina, Thailand, India; there's still so much I haven't seen. Also for pleasure, the thing I am really addicted to is something called a foire à tout—the literal translation is "fair with all"—where towns in the countryside of France get together; each family has a space with tables to sell things they no longer want or need, with homemade food stands and amusements. It's like a big flea market, but on a much different scale. It's a total addiction for me and if I get time, that's what I love to do. It's a great way to see the country, to see history and to collect some very interesting pieces!

FREE: **What do you see for yourself in the future?**
KS: I see a successful, new business and understanding myself in a very different way through this business. For me, the challenges of new endeavors are both difficult and rewarding. I feel completely confident in art and creative direction and in living in New York, but there's also an excitement and a growth in moving to a new country, starting a new business and in taking a different direction. On a personal level, I would like to meet the love of my life; hopefully, somewhere along my travels, he is out there.

ALBRIDGE SOLUTIONS

Albridge Wealth Reporting Data Transfer Expectations

WHO: American Portfolios (AP) and outsource provider Albridge Solutions, an affiliate of Pershing LLC.

WHAT: AP's business technology and operations teams jointly prepared a detailed document to assist advisors in understanding the various nuances that arise during an Albridge data transfer process. Having client data illustrated through the Albridge Wealth Reporting Web service provides evidence that directly held asset and clearing firm accounts have, in fact, transferred to American Portfolios. The document has been segmented into various parts:

- **DATA MOVEMENT**–a grid broken down by custodian that provides timeframes for when account information, transactions, positions and balances flow into AP through Albridge's Wealth Reporting Web service.
- **CLIENT ACCESS**–provides an explanation on the sequence of events for how and when an advisor can grant access to a client to view their account information through Albridge's Wealth Reporting service.
- **HISTORICAL ENTRY**–explains what an advisor needs to do to manually enter cost basis information into Albridge's Wealth Reporting service or to utilize the Albridge Data Converter process should he or she want to bring in cost basis information from another data aggregator.
- **HISTORY MERGES**–outlines the parameters that need to be in place in order to request and conduct a history account merge project for bringing in historical transactions from an advisor whose former broker/dealer aggregates their client data through Albridge.
- **ADVISOR MERGES**–outlines the parameters necessary to request and conduct an advisor merge project and the timeframes for completing such projects (i.e. benchmarks, models, advisor OSJ filters, portfolios and batch jobs).

WHERE: Albridge's Wealth Reporting service is available under the "Accounts" tab in the APFS Broker Web site. Additionally, the Albridge Data Transfer Expectations document can be found under the "Albridge Procedures" folder, located within the Technology section of the APFS Broker Web site.

WHY: The Albridge Data Transfer Expectations document was created with the advisor in mind; AP recognizes that transitioning from one broker/dealer firm to another, or transferring data from one data aggregation system to another, is never a pleasant process. It is the goal of AP to minimize the frustrations that affiliating and existing advisors experience during a data transition by managing their expectations and allowing them to better plan and communicate with their clients.

WHEN: Albridge wealth management reporting service and the Data Transfer Expectations document are available immediately upon an advisor's affiliation with American Portfolios. The timelines for the various parts required in completing the transfer process are outlined below:

- **DATA MOVEMENT**—time frames for data transfers vary with different custodians (Pershing, direct business companies and additional custodians for advisory accounts) and can take as little as one week or as much as six weeks to complete. Account registrations and transactions come over first with positions and balances, in most cases, following immediately thereafter; in some cases there may be a two week delay for positions and balances to come over through direct companies.
- **CLIENT ACCESS**—in most cases, client access is turned on electronically by the AP business technology team shortly after the advisor completes and submits an Albridge Client Registration Form. The form can be found in the Technology section of the APFS Broker Web site, within the Albridge Procedures folder. If client access was established at an advisor's prior broker/dealer, but was not deactivated before account data was transferred over to American Portfolios, client access can be delayed by a week or whatever time it takes to receive specific client ID information from an advisor and submit it to Albridge to manually process.
- **HISTORICAL ENTRY**—requests to manually enter historical cost basis data will occur upon the completion and submission of an APFS Cost Basis Input Request Form; this form is located in the Forms tab of the APFS Broker Web site. Time frames for advisors utilizing the Albridge Data Converter process for data coming in from another data aggregator will vary based on the number of conversion projects Albridge is working on at any given time.
- **HISTORY MERGES**—requests can only be honored to those advisors who came from a broker/dealer that used Albridge to aggregate client data; in addition, the request can only be processed providing the former broker/dealer agrees to it, and cannot be submitted until all client data has been transferred to AP and the advisor has been given access to that data. Advisor merge requests take effect on the 16th day after the commencement of a 15 calendar day negative response process. Albridge can finalize these projects within six weeks of the original request.
- **ADVISOR MERGES**—the time frame for most advisor merges (benchmarks, models and advisor OSJ filters) is approximately one week from the time an advisor merge request has been submitted; for portfolios and batch jobs the process can take as much as six weeks from the time a request is submitted.

COST: The cost of Albridge Wealth Management Reporting for advisors is absorbed by APFS. Services beyond this scope may incur additional expenses.

- Data movement—No cost
- Client access—No cost
- Historical entry—Typically a $3,000 charge
- History merges—One-time fee per history merge, which is $500 for the first 250 accounts and $1 per account for each account greater than 250 accounts
- Advisor merges—No cost

GETTING STARTED: All processes begin once the request for account transfers (through the blanket transfer process, ACATS or change of broker/dealer forms signed by the client) have been submitted to the respective custodians and direct business companies. The following employees can be contacted for follow-up and/or continuation on the data transfer process:

- **DATA MOVEMENT, HISTORICAL ENTRY, ADVISOR MERGES**—Client Data quality Support Specialist Tim Mullady
- **CLIENT ACCESS & HISTORY MERGES**—Advisor Technology Services and Support Specialist Amber Kane

USING THE PROGRAM: Albridge Wealth Reporting informational resources and how to use the program can be found within the Technology section of the APFS Broker Web site. Some of the resources included in this section are online tours of services, training sessions, a support forum and an Albridge demo; all of the resources can be accessed by clicking on the "Albridge Support and Training" link, located directly below the listing of business technology contacts.

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IPC

Active vs. Passive Investing:
The Service-Oriented Advantage

TEXT BY
Shane Morrow, *CFP®, CIMA®, Investment Consulting Manager, Independent Portfolios Consultants, Inc.*

SINCE THE FORMALIZATION of the Efficient Market Hypothesis, a debate has raged between those that perceive the equity markets as fully efficient and those that believe thorough analysis and unique foresight can deliver excess market returns and aid in managing portfolio risk. This article is not intended to trace the historical development of Modern Portfolio Theory and the Efficient Market Hypothesis, nor is it a promotion of active management through the display of consistent market beaters. The objective is to identify the differentiated value that the service-oriented platform and its managers deliver to clients and, in the process, render the debate somewhat irrelevant. One may argue that the passive versus active versus service-oriented platform is not an apples-to-apples comparison.

ACTIVE MUTUAL FUNDS

WHEN THE MUTUAL fund structure was adopted from England in the early part of the 20th century, it brought with it an opportunity for retail investors to more broadly diversify with smaller account values and the potential for excess gains. The fund managers were professional stock pickers; having access to their best ideas implied additional returns. While indices did exist at this time, the only option for investors to gain equity exposure was through the purchase of individual stocks or funds. Over time, the mutual fund industry grew exponentially as investors amassed more wealth and defined contribution plans increased in popularity.

Today, proponents of mutual funds argue that research, trend analysis and modeling active stock selection can deliver superior returns versus an index. Critics cite academic theory and historical data as proof that, over the long term, active management fails to outperform.

PASSIVE ETFs

ALONG WITH EUGENE Fama's proposed Efficient Market Theory, passive supporters have argued that the equity markets are completely efficient due to the existence of an open market, the large number of participants, and the democratization of information. While this academic theory resided within university walls for decades, the late seventies witnessed the first implementation of "indexing," or passive management on an institutional level. It was not until the early nineties that passive investing was widely available to retail investors, and proliferation of this technique was not seen until this past decade.

Proponents of passive investing cite the lower cost, increased tax efficiency and superior performance over a full market cycle relative to actively managed mutual funds. Detractors often point to the investment reality that an individual is at the mercy of an index both during up and, more importantly, during down markets through passive investing.

SERVICE-ORIENTED PLATFORM

SERVICE-ORIENTED PLATFORMS OPERATE on the belief that, in addition to outperformance on a relative basis, high net worth investors are looking to achieve personally defined financial goals and receive ongoing communication and guidance. Ultimately, every investor attempts to match future liabilities with the growth of his or her current assets. However, those liabilities are unique to each investor and can range from future legacies or inheritances, lifetime income, housing needs, etc. The goal of the investment consultant, in this context, is to maximize the probability of the client meeting that future liability need.

The consultant's success is therefore interdisciplinary. He or she should provide astute investment recommendations, proactive communication, effective education and psychological investment consulting (better known as behavioral finance). Many service-oriented platforms help investors achieve their liability funding goals by utilizing independent money managers who provide customized investment solutions to their clients.

Proponents of the service-oriented model appreciate the greater flexibility in designing investment solutions. They also enjoy the service component, which is not available through actively managed mutual funds or passive investing, as well as the objectivity of independent investment managers. Critics may cite higher fees than passive investing, a more limited number of available investment manager offerings or the potential performance of active money managers as reasons for not utilizing a service-oriented platform.

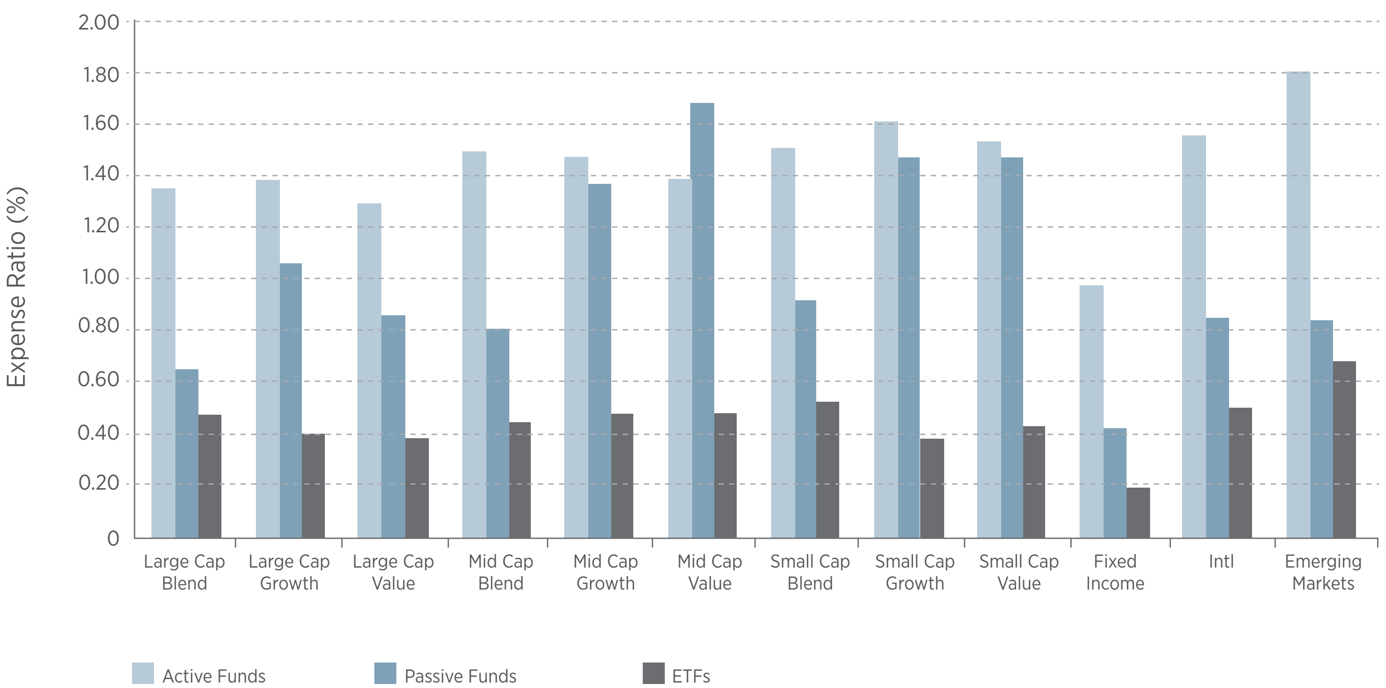
FEE COMPARISON

OF THE AREAS of comparison between the three approaches, fees provide for a straightforward comparison. On many investment advisory platforms, investment fees are charged in arrears and on a monthly basis. Fees are based on the assets under management and are typically regressive. The platform does not typically charge clients additional front-end fees, back-end charges or service fees (check writing, fund wires, distributions, etc). The advisory fee is split three ways among the financial advisor, investment consultant and money manager. The investment consultant's fee covers asset allocation and manager recommendations, due diligence of the managers, trading and execution costs, and custody costs. The money manager's fee covers the active management of either equity or fixed income securities. Lastly, the financial advisor's fee covers his/her responsibility to coordinate investment solutions into the overall financial plan and act as the client's advocate. For these services a standard equity account fee can range from 1.5 percent to 2.3 percent, depending on the platform, for all three parties (financial advisor, consultant and money manager). As such, fee comparisons to the service-oriented platforms are not apples-to-apples.

The chart below, courtesy of Morningstar and SSgA Strategy & Research, illustrates only the management fee for active and passive mutual funds as well as ETFs. A key comparison is found in money management fees. Focusing on the average large cap management fee, active mutual funds are averaging over 1.3 percent and large cap ETFs average approximately 0.41 percent. When isolating the money manager portion of the overall fee, a service-oriented platform compares very favorably considering the value of direct access to senior portfolio managers on an ongoing basis which is not present either through mutual funds or passive investing.

CONCLUSION

OVER THE LONG term, quantitative research has illustrated the relatively low probability of active management effectively capitalizing on market inefficiencies and delivering outperformance to investors. The prominence of the Effective Market Hypothesis has provided a theoretical and academic foundation to passive investing which led



Source: Morningstar Direct, SSgA Strategy & Research, as of 12/31/2009
Average Net Expense Ratio for Active Funds, Passive Index Funds, and Exchange Traded Funds by size and style categories.

to the development of index funds and ETFs. As a result, passive investing has gained a growing portion of assets under management.

While many active mutual funds tout the value of their active stock and sector bets, one may argue that the value of advisory fees goes beyond the outperformance of the investment strategy. The service-oriented platform's fees also include advice on how to construct a complementary portfolio within the customized parameters of the client's long term financial plan. It also includes ongoing communication and advice to help clients address their emotional and financial concerns.

Rational arguments can be made and data cited on both sides of the argument. An undeniable fact exists in that no one can gain access to markets without a cost. The question every investor must ask themselves is, "What am I receiving for access to those markets?" Even passive ETFs entail a cost for participation in market movements. The decision of active versus passive is unique to each individual and lies within the qualitative perspective of the investor. The main mistake that many investors make is thinking there is a "magic" formula, strategy or timing mechanism that will help them get richer than their neighbors. This belief typically leads to irrational and emotional buy and sell decisions which typically occur at exactly the wrong time. Having an educated, long-term strategy that an investor understands, whether it is passive or active, "will not make you rich. But it will make you wiser—and may thereby save you from getting poorer."[1]

The Power of Dividends in a Slow Growth Environment

TEXT BY
Neil M. McCarthy, *Director of Growth Equities*
Emanuele Bergagnini, *CFA, Investment Director of Domestic Equities*

Following three decades of increasing investor focus on capital gains as the primary source of equity returns, many portfolios today reflect diminished exposure to dividend-paying stocks. However, against the current backdrop of slow U.S. economic growth, record amounts of cash on corporate balance sheets and exceptionally low yields on Treasury debt, now appears to be a particularly good time to reconsider investing in companies that not only pay a dividend, but grow it.

THE BASE CASE FOR DIVIDEND GROWTH

Before addressing why we believe current conditions appear to favor a dividend growth strategy, let's review the potential advantages of owning dividend-paying stocks. The most compelling of these is that historically, such stocks have significantly outperformed non-dividend payers, and have done so with lower volatility. Dividend payers that also consistently grow their payouts have an even better record, as the chart below illustrates. Additionally, dividends have proven to be a key component of total return over the long term. From the beginning of 1926 to mid-2010, the S&P 500 Index has returned an annualized 9.7 percent. Of that, capital gains contributed 5.4 percent, with dividends responsible for the remainder, or almost 45 percent of the Index's total return.[1]

DIVIDEND GROWTH: WHY NOW?

While dividends' contribution to total equity returns has been substantial over the long term, their shorter term impact tends to lessen in periods of strong economic growth, and rise in periods of slower growth. During the 1982–1990 boom, for example, an end to hyperinflation, combined with falling interest rates, tax cuts and deregulation, helped the S&P 500 Index deliver annualized returns of 18.5 percent, with the Index's price-to-earnings ratio (P/E) rising from 7.6x to 14.5x. Similarly, the tech boom of 1990–2000 generated annualized returns of 20.6 percent and pushed P/Es from 14.5x to 28.4x. As multiples expanded in these periods, dividends' contribution to total returns fell. Understandably, interest in dividends among companies and investors fell as well.

Today, dividends appear poised for a comeback, especially as the contribution of capital gains to total returns becomes more uncertain. From the beginning of 2000 through the third-quarter of 2010, the S&P 500 Index returned an annualized –0.53 percent, losing about 20 percent of its value in the process. Price-to-earnings ratios, meanwhile, plummeted from 29.5 times at the outset to 14.5 times as of Sept. 30, 2010. Dividend income has naturally resumed a more important role, and is likely to continue playing that role for some time to come.

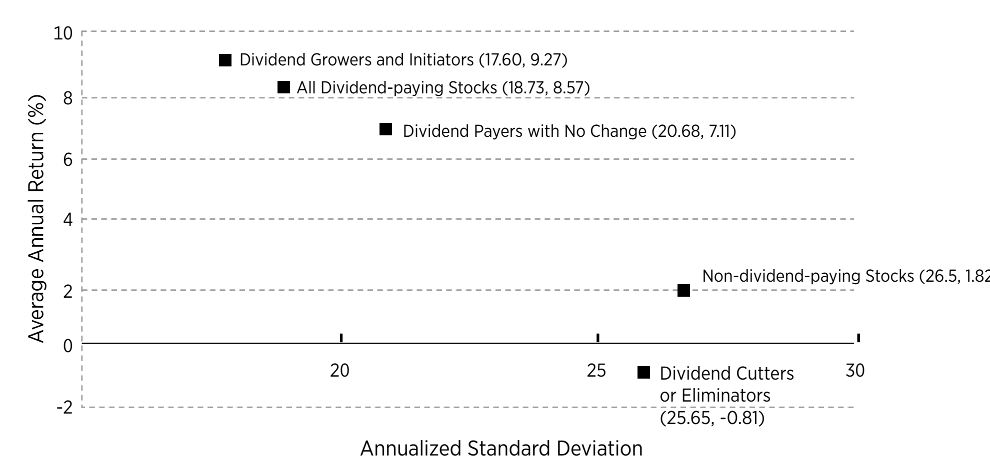
WEAK ECONOMIC GROWTH MAKES DIVIDENDS MORE ATTRACTIVE

The tailwinds of the 1980s and 1990s appear unlikely to benefit U.S. equity returns in the coming years. Economic growth is likely to remain muted, as factors ranging from high unemployment, persistent housing market pressures and tighter lending standards weigh on demand. The Federal Reserve has cut interest rates to exceptionally low levels, and appears committed to keeping them this way for an extended period (though ultimately they have nowhere to go but up). With massive deficits looming, tax increases are all but certain, which, along with increased regulation of the market and economy, could further hamper growth.

In such an environment, it's reasonable to expect flat or falling multiples, which increase the

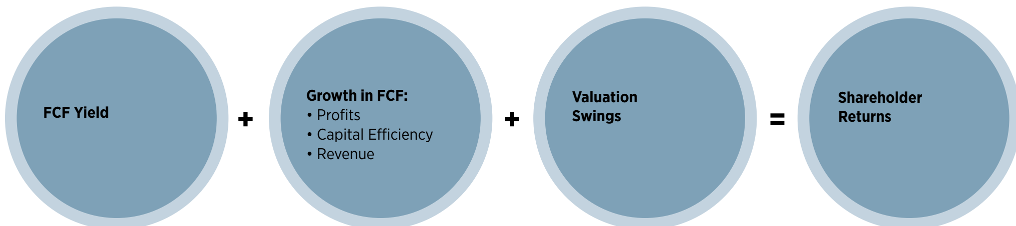
The Power of Dividends 12/31/72–9/30/10

Stocks that pay and grow dividends have historically outperformed those that do not, with less risk.



Source of chart data: Ned Davis Research. 9/30/10. Based on equal-weighted geometric average of total return of dividend-paying and non-paying-historical S&P 500 Index stocks, rebalanced annually. Uses actual annual dividends to identify dividend paying stocks and changes on a calender-year basis. The performance shown represents the risk/return characteristics of each of the five categories with annual standard deviation (measure of risk) measured on the x-axis and average annualized return measured on the y-axis. Risk is represented by standard deviation, a statistical measure of performance fluctuations, Generally the higher the standard deviation, the greater the expected volatility of returns. It is calculated using historical period returns around a mean and cannot be used to predict or depict fund performance. The performance shown is for illustrative purposes only and does not predict or depict the performance of any Oppenheimer fund. **Past performance does not guarantee future results.**

Components of Shareholder Returns



contribution of dividends to total returns and make dividend income generally more attractive to investors.

Furthermore, as the Federal Reserve embraces increasingly accommodative—and potentially inflationary—monetary policy, it's worth noting that dividend paying stocks may offer advantages over other theoretical inflation "hedges." Treasury Inflation-Protected Securities (TIPS), for example, tend to be poorly correlated with consumer prices, while several commodities have hit record highs in 2010. Companies, because they may be able to pass higher prices on to consumers and/or have overseas exposure, may continue to grow (and pay dividends) even as inflation rises. During the hyperinflationary 1970s, in fact, dividends accounted for 75 percent of stocks' total returns.[2]

COMPANIES ARE SITTING ON RECORD LEVELS OF CASH

DESPITE ACUTE ECONOMIC headwinds, domestic balance sheets look increasingly favorable. Though corporate debt levels remain high in some cases, companies are continuing to deleverage and currently hold a record 14.6 percent of their net worth in cash. Cash levels now exceed the peak levels of the 1950s.[3]

In addition, corporations continue to generate high levels of free cash flow (FCF), or cash left over after accounting for expenses and capital expenditures. In fact, S&P 500 companies offered a FCF yield (FCF divided by market capitalization) of 7 percent as of the end of third-quarter 2010.[4]

To better understand why today's high levels of FCF likely enhance the role of dividends in overall equity performance, see the equation below, which illustrates components of shareholder returns. Corporate profitability and capital efficiency—two of the three key components of FCF growth—are unlikely to have the impact they recently had, since companies have already wrestled virtually all the productivity gains they can from their workers and capital resources. That leaves revenues responsible for FCF growth, and one can reasonably estimate that revenues will grow in line with GDP (i.e., modestly, at best). As noted earlier, valuations are also likely to remain flat or even fall, as a tepid economic outlook weighs on investor sentiment.

FCF consequently becomes the dominant source of shareholder returns. While not all of this cash will be returned to shareholders in the form of dividends, many companies clearly have the means and the motive to distribute cash flow to shareholders in that form—especially since returns on cash are currently so low. It's worth noting, however, that despite high levels of FCF, companies' current average dividend payout ratio (the percentage of earnings paid out as dividends) remains historically depressed at 35 percent, well below the long-term average of 59 percent.[5] This low ratio reflects companies' generally defensive posture in the aftermath of the financial crisis and in the face of an uncertain outlook on growth, regulation and taxation. Increased clarity or a favorable resolution of these issues could potentially drive dividend payout ratios higher going forward.

LOW BOND YIELDS REDUCE OPPORTUNITY COST

AS INTEREST RATES have dropped, Treasury yields have fallen to record lows, marking the likely end of a 25-year secular decline. Treasury yields have traditionally exceeded average dividend yields by a considerable margin, creating an opportunity cost to owning dividend-paying stocks. Today, however, that opportunity cost barely exists, and dividends look increasingly attractive in comparison as a source of income. Additionally, the fact that Treasury yields can scarcely fall any lower potentially exposes investors in longer maturity instruments to capital losses, when and if yields eventually rise.

The aging of the U.S. population is increasingly driving the demand for income-paying securities. Far fewer investors can now count on pensions as a reliable source of retirement income than in the past, and questions surround the long-term future of Social Security. As a result, more investors will likely need to rely on personal savings and investments to provide for their retirement needs. With Treasury yields so low, the demand for dividend-paying and dividend-growing stocks appears likely to increase.

WHAT IT MEANS FOR INVESTORS

THE CURRENT SLOW-GROWTH environment appears to favor stocks of companies that pay—and grow—a dividend. Absent a strong economic tailwind, multiples are unlikely to expand significantly, making dividends a more critical component of total returns. Additionally, such stocks may be especially attractive given high levels of cash on companies' balance sheets and the prospect of Treasury yields remaining low for an extended period.

1 Source of data: Ned Davis Research, 6/30/10.

2 Source of data: The Wall Street Journal, October 27, 2010: Tips That Aren't TIPS.

3 Source of data: "The Dividend Comeback," Ned Davis Research, Inc., Trends & Themes, July 26, 2010.

4 Source of data: FactSet, 9/30/10.

5 Source of data: Robert Shiller, Standard & Poor's, Empirical Research Partners Analysis.

These views represent the opinions of OppenheimerFunds, Inc. and are not intended as investment advice or to predict or depict performance of any investment. These views are as of the open of business on 11/12/10, and are subject to change based on subsequent developments.

Shares of Oppenheimer funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

Investments in securities of growth companies may be especially volatile. Value investing entails the risk that the market may not recognize that a security is undervalued and a price increase may not occur as anticipated. Investing in foreign securities may be more volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and political and economic factors. There is no guarantee that the issuers of the stocks held by funds will declare dividends in the future or that, if dividends are declared, they will remain at their current levels or increase over time. Diversification does not guarantee a profit or protect against loss.

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State of the Firm

TEXT BY
Lon T. Dolber, CEO

I present you with the fourth-quarter 2010 performance results for American Portfolios. 2010 fourth-quarter revenues and fees of $24,661,455 increased significantly by 36 percent from fourth-quarter gross revenues and fees received in 2009 of $18,149,047. The year ended with a 45 percent increase in total gross revenues from the previous year of $90 million in 2010 from $62 million in 2009. Assets under management for the firm also had a respectable increase of 32 percent from the third quarter. A historical analysis of the quarterly performance results shows that 2010 fourth-quarter revenue figures were $14.3 million more than the total gross revenues received in the firm's first full year in business ($10.3 million in 2002) and approximately $8.2 million more in gross revenues received for all of 2004. These positive performance results reflect a strong finish for the year as a result of increased and renewed confidence in the market and the acquisition of some substantial new practices that joined the firm earlier in the year and became fully operational in the fourth quarter of 2010.

CORPORATE OVERVIEW:

American Portfolios has 79 employees (70 of whom are full-time, five who are part-time and four who are consultants). All support 738 registered representatives—which includes 66 registered assistants and 28 registered employees—working from 107 offices of supervisory jurisdiction and/or 345 branch office locations as of Dec. 31, 2010.

FINANCIAL OVERVIEW:

Fourth-quarter gross commissions and fees of $25 million were higher than the third-quarter of 2009, a 36 percent increase of $6.5 million from $18.1 million. Gross revenues for the firm have increased over fifteen times since the fourth quarter of 2001 ($1.6 million in 4Q 2001 to $25 million in 3Q 2010). In an across-the-board analysis of products and services offered through American Portfolios, alternative investments, life insurance and managed accounts had the highest increases of 209 percent, 79 percent and 50 percent respectively from the fourth quarter in 2009 (Table 1). Assets under management increased by 32 percent from $10.5 billion in the fourth quarter of 2009 to $13.8 billion in the fourth quarter of 2010. (Table 2).

Fig. 1

GROSS COMMISSION & FEE REVENUE *(by quarter)*

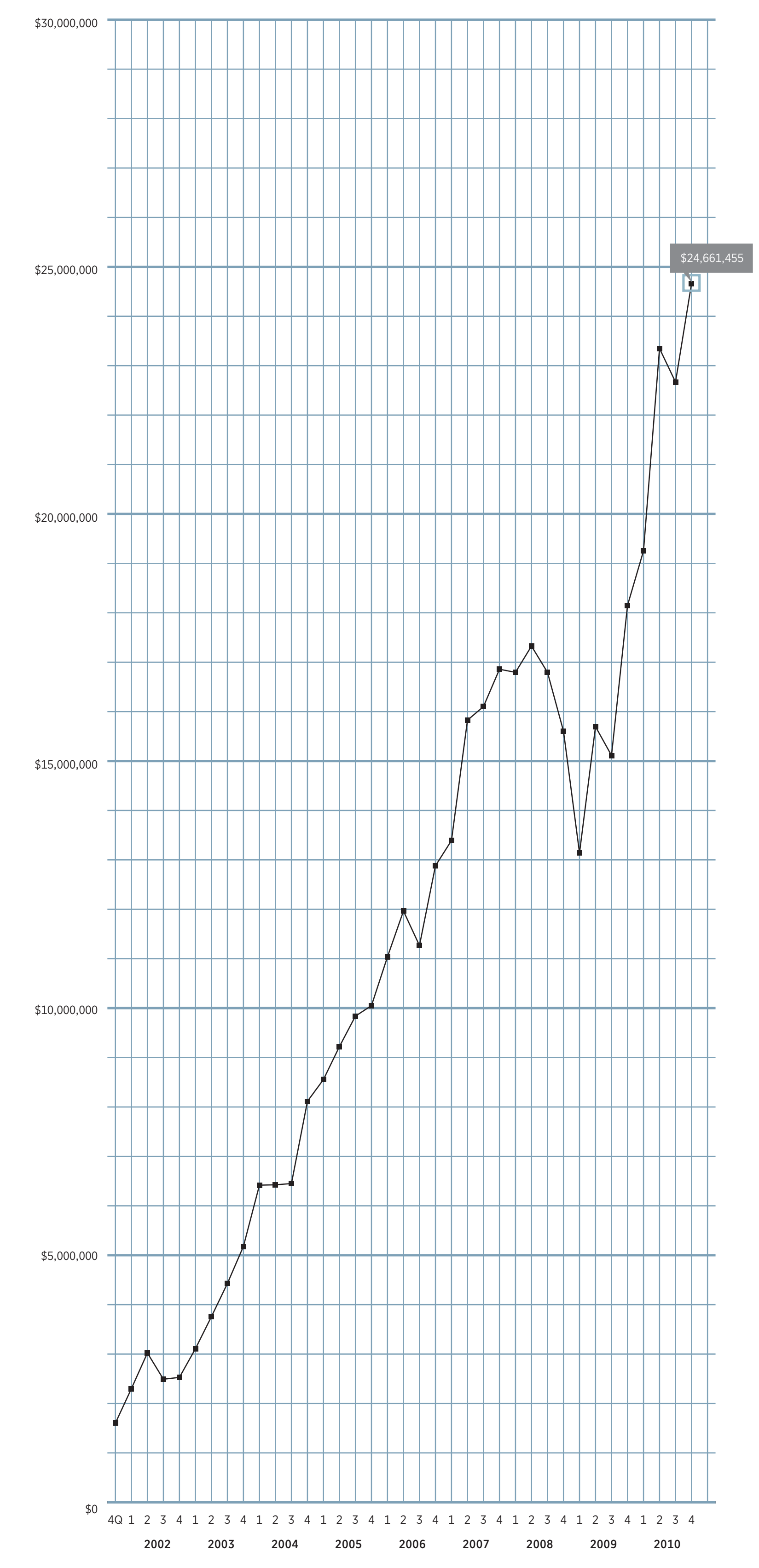


Table 1

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
2009 1Q	$1,301,853	$2,538,557	$3,405,101	$447,609	$665,130	$2,763,311	$1,158,586	$116,793
2009 2Q	$1,701,361	$2,635,830	$4,364,957	$364,158	$1,515,700	$2,725,085	$1,368,452	$366,967
2009 3Q	$1,832,403	$2,993,591	$4,326,214	$158,080	$649,832	$2,971,559	$1,352,518	$165,193
2009 4Q	$2,215,760	$3,421,110	$5,837,766	$189,435	$491,237	$3,537,793	$1,527,808	$128,542
2010 1Q	$2,147,290	$3,629,271	$5,950,199	$151,918	$625,206	$4,095,454	$1,719,005	$220,352
2010 2Q	$2,451,819	$3,874,440	$7,521,884	$351,567	$610,260	$5,246,427	$2,320,126	$271,169
2010 3Q	$2,168,987	$3,975,603	$7,695,978	$274,850	$571,790	$5,043,967	$1,646,661	$438,681
2010 4Q	$2,357,861	$4,347,094	$8,030,471	$198,839	$880,907	$5,297,915	$2,247,375	$398,369
Change from Q4 2009	+ 6.5%	+27%	+38%	+5%	+79%	+50%	+47%	+209%

Top 5

Top Five Fund Families by Commissions for the Fourth Quarter of 2010

1. $1,512,716 American Funds
2. $1,388,918 OppenheimerFunds
3. $898,982 Franklin-Templeton Funds
4. $346,948 Fidelity Funds
5. $217,976 Eaton Vance Funds

Top Five Variable Annuity Vendors by Commissions for the Fourth Quarter of 2010

1. $1,571,157 Prudential
2. $1,277,643 Jackson National
3. $899,938 Nationwide
4. $546,566 John Hancock
5. $518,713 ING

Top Five Vendors' Assets Under Management as of Dec. 31, 2010

1. $1,643,675,378 American Funds
2. $1,133,253,131 OppenheimerFunds
3. $796,869,852 Franklin Templeton Funds
4. $455,433,413 Nationwide VA
5. $468,776,281 Prudential VA

Table 2

ASSETS WITH AMERICAN PORTFOLIOS

Quarter Ending	Clearing Firm Assets	Assets Held Directly	Total Assets
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
2009 1Q	$3,709,229,426	$3,620,473,004	$7,329,702,430
2009 2Q	$4,041,940,609	$4,134,002,438	$8,175,943,047
2009 3Q	$4,664,682,071	$5,134,053,195	$9,798,735,266
2009 4Q	$5,131,640,776	$5,357,951,011	$10,489,591,787
2010 1Q	$5,805,897,177	$5,832,899,921	$11,638,797,098
2010 2Q	$5,826,606,566	$5,651,387,658	$11,477,994,224
2010 3Q	$6,360,580,263	$6,233,967,878	$12,594,548,142
2010 4Q	$7,157,320,915	$6,651,331,895	$13,808,652,810
+/- over 2009 4Q	+40%	+24%	+32%

Representative Overview

Sept. 10, 2001 – Dec. 31, 2010

Between Sept. 10, 2001, and Dec. 31, 2010, 1,023 new representatives have joined the firm while 482 representatives have been encouraged to leave. The nine-year average growth rate of new advisors who joined the firm—net of those advisors who were encouraged to leave—is 11.1 percent.

Table 3

Fourth -Quarter 2010 New Colleagues

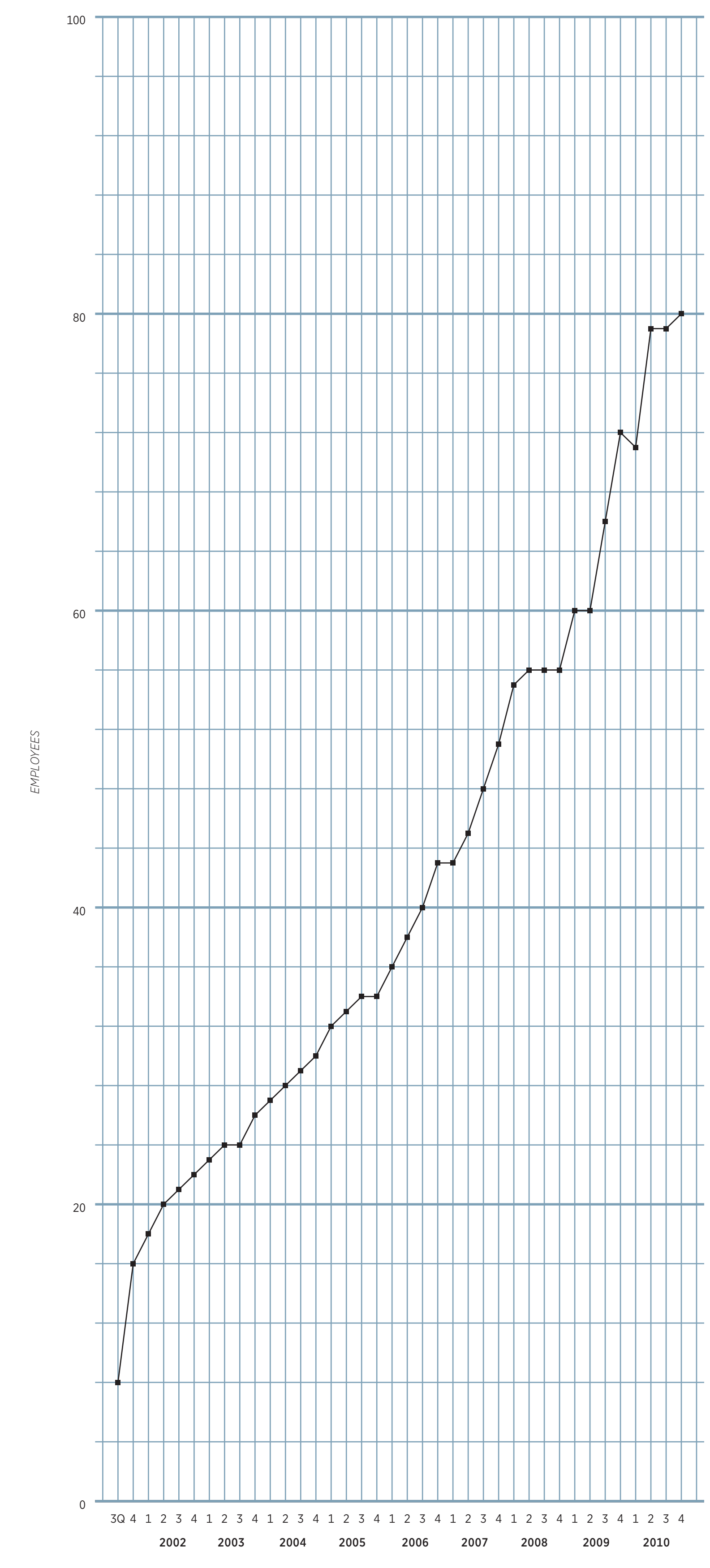
First Name	Last Name	City	State	Supervising Principal	Start Date	Status
James	Ferguson	Clearwater	FL	Richard Gerepka	10/1/2010	Principal
Tracy	Flanagan	Sioux Falls	SD	Timothy O'Grady	10/1/2010	Registered Assistant
Nicholas	Garry	Sioux Falls	SD	Timothy O'Grady	10/1/2010	Account Executive
Steven	Garry	Sioux Falls	SD	Timothy O'Grady	10/1/2010	Account Executive
Jennifer	Pals	Sioux Falls	SD	Timothy O'Grady	10/1/2010	Registered Assistant
John	McDonough	Spring Lake Heights	NJ	Thomas Froehlich	10/4/2010	Account Executive
Douglas	Brady	Saratoga Springs	NY	David Bangert	10/6/2010	Registered Assistant
Greg	Selg	Holbrook	NY	Timothy O'Grady	10/7/2010	Account Executive
Joseph	Taylor	Holbrook	NY	Lon Dolber	10/15/2010	Registered Staff
Robert	Wilber	Southgate	MI	Brian Yarch	10/15/2010	Account Executive
Sean	Berger	Glens Falls	NY	Richard Cox	10/18/2010	Principal
Tina	Bridge	Glens Falls	NY	Michael Brown	10/19/2010	Registered Assistant
William	Flinter	Holbrook	NY	Lon Dolber	10/21/2010	Registered Staff
Amy	Abaravich	Wheaton	IL	Theresa Hannon	10/21/2010	Registered Assistant
David	Warshaw	Garden City	NY	Jeffrey Kahn	10/27/2010	Account Executive
Steven	Osterink	Kentwood	MI	Joseph Taunt	10/29/2010	Account Executive
Steven	Osterink	Kentwood	MI	Joseph Taunt	10/29/2010	Principal
James	Schipper	Kentwood	MI	Joseph Taunt	10/29/2010	Account Executive
Deborah	Anzelc	Stow	OH	Michael Lytle	11/1/2010	Account Executive
Anthony	DeGregorio	Hazlet	NJ	Jeffrey Kahn	11/4/2010	Principal
Patricia	Radecki	Grand Rapids	MI	Joseph Taunt	11/5/2010	Registered Assistant
Dewey	Engelsma	Grand Rapids	MI	Joseph Taunt	11/5/2010	Account Executive
Michael	Wood	Grand Rapids	MI	Joseph Taunt	11/5/2010	Principal
John	Ott	Grand Rapids	MI	Joseph Taunt	11/5/2010	Account Executive
Catherine	Newman	Katonah	NY	Jane Desmond	11/8/2010	Registered Assistant
Anthony	Burek	Monroe	MI	Don Carlson	11/10/2010	Account Executive
Paul	Wannemacher	Monroe	MI	Donald Carlson	11/11/2010	Account Executive
Dustin	Leach	Monroe	MI	Donald Carlson	11/11/2010	Account Executive
Melissa	Clements	Monroe	MI	Donald Carlson	11/12/2010	Registered Assistant
Paul	Bovi	Holbrook	NY	Frank Tauches	11/15/2010	Account Executive
Daniel	Mazzola	Massapequa	NY	David Rey	11/15/2010	Principal
Thomas	Bare	Hickory	NC	Elizabeth Munday	11/18/2010	Account Executive
Stephen	Frost	Clifton Park	NY	Michael Brown	11/19/2010	Account Executive
James	Schultz	Hazlet	NJ	Anthony DeGregorio	11/19/2010	Account Executive
Gary	Gordon	Holbrook	NY	Gus Catanzaro	11/24/2010	Principal
Ralph	Angelo	Rochester	NY	Gary Gordon	12/10/2010	Account Executive
Sarah	Fuller	Rochester	NY	Todd Harris	12/10/2010	Account Executive
Todd	Harris	Rochester	NY	Gary Gordon	12/10/2010	Principal
John	Podleski	Rochester	NY	Todd Harris	12/10/2010	Account Executive
Brian	Provost	Rochester	NY	Todd Harris	12/10/2010	Account Executive
Shawn	Richards	Rochester	NY	Todd Harris	12/10/2010	Account Executive
Merle	Aiello	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Robert	Conderman	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Robert	Delisanti	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Robert	Dornan	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Stephan	Meier	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Robert	Morse	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Joseph	Palma	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Gregory	Rahmlow	Rochester	NY	Todd Harris	12/13/2010	Account Executive
John	Wilkinson	Rochester	NY	Todd Harris	12/13/2010	Account Executive
Richard	Rogers	Davie	FL	Kenneth Hauck	12/16/2010	Account Executive
Jenifer	Tencza	Delray Beach	FL	Kenneth Daly	12/21/2010	Registered Assistant
Jeffrey	Tart	West Palm Beach	FL	Richard Gerepka	12/21/2010	Registered Assistant

Recruiting and Marketing Overview

The firm continues to attract new colleagues. Networking opportunities and calls from prospective candidates actively take place in the new business development area. As of Dec. 31, 2010, the broker/dealer had 765 registered representatives, which included 73 registered assistants and 30 registered employees working from 106 Offices of Supervisory Jurisdiction, as well as 355 branch office locations. A total of 53 new associates have joined the firm in the fourth quarter of 2010. As of Dec. 31, 2010, there were 662 producing registered representatives at the firm.

Fig. 2

EMPLOYEE GROWTH *(by quarter)*



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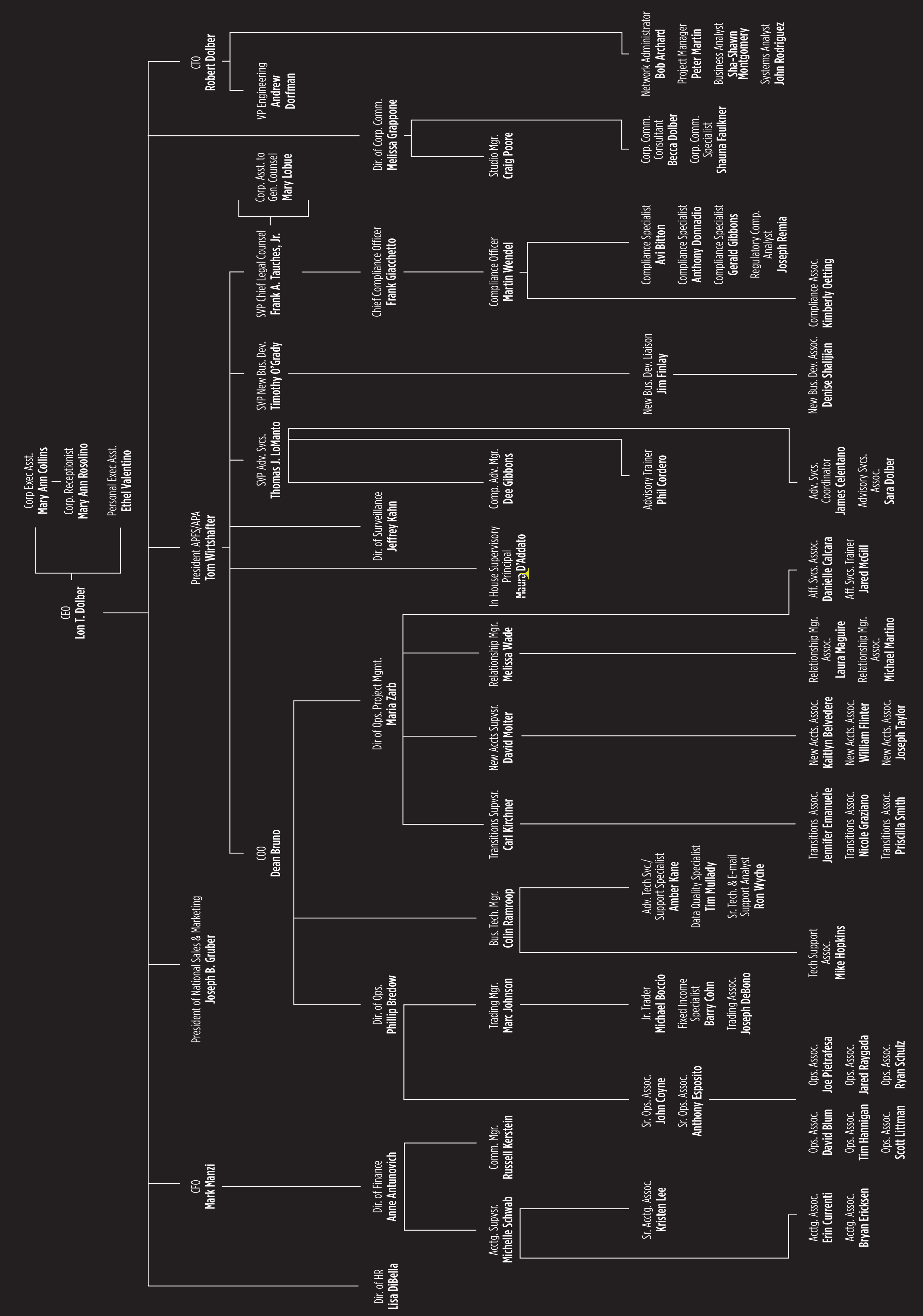

FOCUS AND BUSINESS PARTNERS

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