

# EVALUATING INVESTMENT ADVISORS

## 20 Key Questions to Ask an Investment Advisor

SPECIALLY PREPARED FOR AMERICAN AIRLINES PILOTS NEARING RETIREMENT

You have built a substantial retirement nest egg over the years. Soon, you can relax and enjoy life. *But who is going to manage your assets after you retire?* You could try to do it yourself. Or, if you are like many American Airlines pilots, you may decide that investment management is best left to professionals.

At Cleary Gull, we urge investors to interview several investment advisors before selecting just one. Evaluate firms by examining their **people, philosophy, process, and price**. More often than not, these four crucial ingredients will determine investment **performance**.

Make sure you receive completely conflict-free and unbiased investment advice. After all, financial advisors can be found in a variety of settings, from brokerage firms to bank trust departments and insurance companies. Ask questions. You deserve to know whether or not your money will be managed free of internal biases.

Investment advisors generally fall into two camps — those using mutual funds, and those using individual securities and/or mutual funds. If your portfolio is designed around mutual funds, you will exclusively pay two layers of fees — the fee your investment advisor charges *and* the mutual fund's investment management fee and expenses. If your investment advisor uses individual securities, you will want to be clear on exactly what services are included in the advisory fee. Are securities trading costs included? Are bonds included in the fee, or does the advisor reserve the right to "mark up" your bonds? Be sure you understand all the fees and expenses involved. They can have a dramatic effect on investment performance over time.

To help you get started, we have prepared a list of questions to ask as you interview investment advisors. The Cleary Gull responses to these same questions are also included.

### You deserve straight answers to these 20 important questions.

1. *What is your firm's corporate structure and experience and how many employees do you have?*
2. *Who are your clients? How long have you been working with American Airlines pilots and how many pilot families do you serve?*
3. *Who will be my contact person and where will I meet with him or her?*
4. *Who will service my account after I become a client?*
5. *What is the background, education and experience of those giving advice and making investment decisions?*
6. *Are you familiar with my AAL insurance benefits in retirement?*
7. *Is your firm a Registered Investment Advisor?*
8. *Describe your investment philosophy. Do you base advice on asset allocation? Market timing? Do you use mutual funds or individual securities?*

9. *Do you sell any financial products, including life and long-term care insurance and annuities?*
10. *Do you offer analysis and specific recommendations regarding the A-Plan, current B-Plan Unit Value estimates, B-Plan "lock-in" strategy, early retirement breakeven analysis and implications, and retirement timeline issues?*
11. *Do you provide historical performance records for the investments you recommend? Is this performance audited? Do you provide appropriate benchmarks for your recommended investments?*
12. *Do you provide a hypothetical projection of account values, retirement income and income tax? Is this a one-time or ongoing service?*
13. *How do you manage fixed-income (bond) portfolios? Do you use bond funds or individual bonds? Do you purchase bonds out of the firm's inventory? Do you reserve the right to "mark up" the cost of these individual bonds?*
14. *Who actually holds my investments and is my account insured?*
15. *What kind of statements do you provide to track my investments?*
16. *Do you provide IRA liquidation analysis and Required Minimum Distribution calculations?*
17. *Do you provide estate planning?*
18. *Do you have a program to assist surviving beneficiaries?*
19. *Describe any other services you offer pilots.*
20. *How are you compensated? What is your fee? Are there additional management fees or trading costs? Do you employ "best price" execution on trades?*

## **Evaluating Investment Advisors "The Cleary Gull Response"**

1. ***What is your firm's corporate structure and experience, and how many employees do you have?***  
 Founded in 1987, Cleary Gull is today 100% employee-owned — we are free of external influence and control. Our assets under management and our national presence affords you access to premier, independent money managers who select individual securities and selected mutual funds on your behalf. We have just over 60 employees, each dedicated to Cleary Gull's client-focused investment process. Many of our staff members have over 20 years of independent investment and financial consulting experience.
2. ***Who are your clients? How long have you been working with American Airlines pilots and how many pilot families do you serve?***  
 Our clients are retired pilots, other high net worth investors, pension plans and foundations. We have worked actively with AAL pilots since 1996 and currently serve over 350 pilot families coast-to-coast and over 500 clients in total. We will be happy to supply references upon request.
3. ***Who will be my contact person and where will I meet with him or her?***  
 You will work with a Cleary Gull AAL Retirement Consultant who will coordinate your pre-retirement planning, review your retirement and investment objectives, and deliver your customized and comprehensive Clearwealth® proposal. We welcome meetings in our Milwaukee office, in your home, or a mutually convenient location.
4. ***Who will service my account after I become a client?***  
 At Cleary Gull, we believe a team approach provides you with optimum customer service. Your retirement consultant will continue to work with you along with a

5. personal relationship and portfolio manager, a financial and estate planning professional, and an account services specialist.
6. ***What is the background, education and experience of those giving advice and making investment decisions?***

The Cleary Gull team is very experienced and highly qualified to advise you. Our associates are graduates of prominent colleges and universities and hold all necessary securities licenses. Most retain one or more additional degrees and designations such as MBA-Finance; MBA-Business; Chartered Financial Analyst; Chartered Financial Consultant; Certified Financial Planner; CIMA - Certified Investment Management Analyst; Advanced Money Management, Wharton School and Accredited Estate Planner. Individual biographies are available upon request or on our Website, [www.clearygull.com](http://www.clearygull.com) under **Professionals**.

7. ***Are you familiar with my AAL insurance benefits in retirement?***  
Yes, we stay very familiar with all your benefit options and help you make sense of all the decisions you need to make before you retire — decisions integral to both your retirement and to your estate planning.

8. ***Is your firm a Registered Investment Advisor?***

We are both a Registered Investment Advisor under the Investment Advisors Act of 1940 and a Broker/Dealer. All Cleary Gull investment professionals are licensed registered representatives.

9. ***Describe your investment philosophy. Do you base advice on asset allocation? Market timing? Do you use mutual funds or individual securities?***

At Cleary Gull, we believe in asset style allocation. We base our recommendations upon on-going research and statistical return/risk analysis, client lifestyle requests and specific goals and objectives. We developed and use a proprietary research and analysis tool called the *SMART System* (Strategic Manager Attribution Rating Technique). This valuable rating tool encompasses both quantitative and qualitative analysis and allows us to identify, evaluate and track the most appropriate independent managers for your portfolio. We also analyze non-performance issues such as the overall experience level of the staff, educational qualifications and turnover of the accounts. We hire managers from a pool of 5500 of the most talented worldwide. These managers specialize in a chosen asset class and select individual stocks to help maximize the return on your portfolio. Our clients' portfolios consists of individual securities, institutionally priced mutual funds and ETF's.

10. ***Do you sell any financial products, including life and long-term care insurance and annuities?***

Your best interest demands a conflict-free environment. For that reason, we do not sell commission-based financial products such as life or long-term care insurance and/or annuities. We will assist you in securing insurance and related products through other independent consultants and brokers. Cleary Gull's involvement typically results in insurance products that are better designed, with lower internal pricing than traditional retail products. We receive no compensation of any kind for this review and referral service.

11. ***Do you offer analysis and specific recommendations regarding the A-Plan, current B-Plan Unit Value estimates, B-Plan "lock-in" strategy, early retirement breakeven analysis and implications, and retirement timeline issues?***

Yes. We offer analysis and recommendations on an ongoing basis. We monitor daily market movements and can provide an estimated B-Plan Unit Valuation at the end of

each trading day. You will also receive a breakeven analysis comparing an early retirement date to retirement at age 60 or later if appropriate. Our 15-month pre-retirement timeline service will keep you on top of all important decision deadlines.

12. ***Do you provide historical performance records for the investments you recommend? Is this performance audited? Do you provide appropriate benchmarks for your recommended investments?***

Yes. Your Clearwealth<sup>®</sup> Proposal includes a recommended asset allocation, a 10-year *Association of Investment Management and Research (AIMR)* - audited performance report on each independent money manager we recommend and on the portfolio performance in total. All performance is presented against customized relative benchmarks so you can see an apples-to-apples comparison and determine how much value is actually added.

13. ***Do you provide a hypothetical projection of account values, retirement income and income tax? Is this a one-time or ongoing service?***

Initially, you will receive a Clearwealth<sup>®</sup> Proposal prepared for your unique set of circumstances. The proposal includes a detailed investment policy statement, an asset allocation analysis based upon your goals and your risk tolerance, full investment management recommendations, and an analysis factoring in your resources (income & assets) and your goals, giving due consideration to taxes, inflation and anticipated lifestyle changes. Part of our client service commitment include updating the analysis to keep your investment program on track.

14. ***How do you manage fixed-income (bond) portfolios? Do you use bond funds or individual bonds? Do you purchase bonds out of the firm's inventory? Do you "mark up" the cost of these individual bonds?***

Our philosophy toward fixed-income is very conservative. Fixed income's purpose is to dampen the volatility of equity accounts and provide retirement income. We "block purchase" individual investment-grade corporate and government bonds using a well-diversified approach. From time-to-time fixed income mutual funds may be used to take advantage of certain market conditions that cannot be approached as effectively with individual bonds. We retain multiple, independent bond dealers to negotiate the best price on the purchase of bonds. Our approach is conflict-free. Cleary Gull does **not** "mark up" the bonds in your portfolio.

15. ***Who actually holds my investments and is my account insured?***

We retain the services of one of the nation's largest and most respected clearing firms. Our clearing firm is responsible for executing and processing security transactions and carrying your account on a fully-disclosed basis for Cleary Gull. The total net asset value of your account is fully insured through SIPC and our custodian.

16. ***What kind of statements do you provide to track my investments?***

You will receive both monthly brokerage and quarterly performance statements and reviews. Your quarterly performance review provides your portfolio performance and relevant benchmarks for comparison purposes and comparative data against relevant benchmarks. You can also review your account on our secure Internet site 24/7. Screens illustrate all current account values and security positions, account activity, and your current asset allocation. Our password-protected site allows you to download your account data directly into **Quicken**. In **Investor Connect** click *Visitor* to take a *Virtual Visit*.

17. ***Do you provide IRA liquidation analysis and Required Minimum Distribution calculations?***

Yes, we prepare an *IRA Required Minimum Distribution (RMD)* analysis for each of our clients. Naturally, we use the most current IRS regulations. With proper estate planning, we can help you structure your IRA to continue to grow tax-deferred over

not only your lifetime but that of your spouse and children. Cleary Gull works with all your other advisors to ensure the greatest tax deferral and wealth protection opportunities possible.

18. ***Do you provide estate planning?***

Yes. A Cleary Gull Certified Financial Planner, Chartered Financial Consultant, Accredited Estate Planner and/or an estate planning attorney will review your unique situation. We will help you determine goals and objectives and transfer tax liabilities. We will also analyze strategies to lower taxes and investigate opportunities to enhance and preserve your entire estate. If necessary, we will help you find independent legal counsel and work with them to implement your family's plan.

19. ***Do you have a program to assist surviving beneficiaries?***

Definitely. We are here for you now and we will be here for your loved ones after you are gone. Our *Family Survivorship Guidance Program* is one of the most valuable services we provide to our clients. We help spouses and surviving beneficiaries when they need help most. When you become a Cleary Gull client, we assist in organizing your estate objectives, documents and records. At the appropriate time, we will be there to help ensure a seamless transition.

20. ***Describe any other services you offer pilots.***

Our investment management service includes quarterly portfolio performance tracking, asset allocation analysis and appropriate investment adjustments. You have unlimited access to your service team on any investment, estate, insurance and tax planning issue. You will enjoy unlimited check writing, credit card, bill payment, funds transfer, direct deposit, income tax withholding and Quicken downloads. As an optional service, you can have access to a full service brokerage account for making individual security transactions.

21. ***How are you compensated? What is your fee? Are there additional management fees or trading costs? Do you employ "best price" execution on trades?***

We are a fee-based investment advisor. Our annual fee is a flat percentage of your investment account — our maximum fee is less than 1% — divided by four and charged quarterly. Most of our clients satisfy fees on a pre-tax basis, from the IRA itself. Your account will also be charged for the actual transaction costs of trading your individual securities, at \$9.00/trade. All Cleary Gull clients benefit from institutional trading and "best price" execution. We believe our fee structure is very competitive, and emphasize that all fees are disclosed with complete transparency.