See what's on the other side of the moon.

How to invest with clarity and transparency

Many popular trading platforms and custodians boast about "commission-free" trades. But often, "commission-free" isn't actually free – what you can't see is just as important as what you can.

SAVINGS YOU SEE:

- Commission-free trades

EXPENSES YOU DON'T SEE:

- Payment for order flow

  Payment for order flow is revenue that a trading platform or a custodian receives for sending your trade to a third party for execution. It quite simply means that you may not be getting the best price when you trade a security.

- Maintenance & transaction fees

  Maintenance, trading, and transaction fees are fees that custodians charge to hold your assets and execute transactions on your behalf.

- Credit spreads

  Credit spreads are the difference between the true interest paid out on a fixed-income security (like a Treasury T-Bill) and what a trading platform or custodian actually offers to you. The difference between the two is profit that goes to the brokerage firm and not into your pocket.

- Securities lending

  Securities lending is the practice of loaning shares of stock, commodities, or other securities to other investors or firms. Securities lending involves a loan of securities by one party to another, often facilitated by a brokerage firm.

- Margin interest

  Margin interest is money that is charged by a trading platform or custodian for lending you money to trade a security. The interest is profit to the trading platform or custodian.

- Fund expenses

  Those mutual funds and Exchange Traded Funds (ETFs) you invest in? Every one of those has expenses attached to it. It's essential to know these expenses so that you can control your investment costs.

The problem

With every trade, trading platforms and custodians collect small fees that amount to big profits ... at the expense of your financial future.

Most investors have no understanding of the fees they pay. Over time, those fees add up and reduce your returns.

“Commission-free” trades have a larger impact beyond returns.

- Trading platforms are not always required to act in the best interest of their users, meaning investors might not be getting the best price possible.
- The idea of “free” may lead some investors to trade frequently, losing sight of a long-term mindset. Investors who attempted to guess the direction of the markets were incorrect 66% of the time in 2020. Outcomes were even worse in 2019.[1]

What’s the real cost?

65% → **90%**

Percentage of trades executed at the best quoted price before the UK banned payment for order-flow practices

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Why does this matter? It shows that trading and brokerage platforms are more likely to execute investor trades at the best quoted price when they do not accept payment for order flow.[2]

[1] Source: Dalbar 2021 Quantitative Analytics of Investor Behavior (QAIB) Report,” DALBAR, Inc. www.dalbar.com. Equity benchmark performance example is represented by the Standard & Poor’s 500 Composite Index, an unmanaged index of 500 common stocks generally considered representative of the U.S. stock market. Bond benchmark performance example is represented by the Bloomberg Barclays Aggregate Bond Index, an unmanaged index of bonds generally considered representative of the bond market. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in any index Past performance cannot guarantee future results.

[2] Source: "Robinhood’s business model of making hundreds of millions from customer orders takes center stage during the GameStop hearings,” BusinessInsider, February 21, 2021

See everything clearly with an advisor

When you work with an advisor, there doesn't need to be a dark side of the moon. Here are five reasons your advisor can help you control your investing experience.

Advisors are fiduciaries

As fiduciaries, advisors are required to act in the best interest of their clients and not place their own interests ahead of those of their clients. This means that your advisor must make investment decisions that are in your best interest – plain and simple.

Simple and clear fee-for-advice models

There's always a cost to working with a financial advisor. But many financial advisors now operate on a flat-fee basis or charge a clear percentage fee based on your assets. Ensuring that you have a clear understanding of how your advisor charges for their services helps to ensure that you can effectively control your investment costs.

Tax management

Over 40 years, taxes can reduce your portfolio by up to 61%.[3] Working with your financial advisor, you can implement a number of tax-smart strategies that can potentially reduce your tax burden over time.

Investment research and manager selection

In 2020, there were over 10,000 mutual funds and ETFs, all with different expenses attached to them.[4] Your advisor can help you navigate the endless number of investment choices in order to find the investment vehicles that make the most sense for your investment goals – at the lowest possible cost.

Clear and comprehensive reporting

Controlling your costs begins with understanding what they are. Using powerful reporting tools, your financial advisor can give you a clear picture of your investment mix and costs.

[3] Hypothetical growth of $100,000. Parametric Portfolio Associates: Based on a hypothetical tax-free $100,000 portfolio invested 60% in stocks (based on the Russell 3000 Index) and 40% bonds (based on the Bloomberg Barclays US Aggregate Bond Index) with (1) no liquidators. (2) interest income and dividends taxed annually at historical top marginal tax rates. (3) capital gains realized at 50% per year and taxed at the historical long-term capital gains tax rate. (4) portfolio is held for 38 years from (1979-2020). The intent is to portray a worst-case scenario. The portfolio would have grown from $100,000 to over $6.0 million. If the portfolio was taxed as indicated above, it would have lost 61% of its value, due to taxes paid and earnings lost on that money. Tax-managed investment strategies are designed to minimize capital gains distributions and maximize after-tax returns. Results will vary as the amount of federal income tax paid depends on both the investor's tax bracket and how long the investment is held. **Past performance is no guarantee of future results.**

As of 12/31/2020.

[4] Source: Statista Research Department, February 18, 2021

A countdown to clear and transparent investing with your advisor:

3.

Make sure your advisor is a fiduciary and is required to act in your best interest.

2.

Work with your advisor to ensure a clear tax-management strategy is in place, using these tax-smart investing ideas.

1.

Regularly assess your investment mix and costs with your advisor.

When it comes to your financial future, see what's ahead with your advisor.

We believe that everyone deserves access to clear financial advice. Contact your advisor for more information about understanding fees and costs – helping you to move faster towards a better financial future.

Independent Advisor Solutions by SEI

Building better financial futures, together.

SEI New ways. New answers.®