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August 19, 2004

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Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.,
Washington, D.C. 20549-0609.

RECEIVED
AUG 24 2004
OFFICE OF THE SECRETARY

RE: File No. S7-25-99
Fee-Based Accounts

Dear Mr. Katz

I have today emailed you an article I published on the subject of fees and will be enclosing it in this letter along with exhibits. In the months following the publication additional concerns have crystallized. In short, the failures to disclosure of both the impact of fees and obvious conflicts of interest are becoming more prevalent. I am attaching an exhibit utilizing a 1.5% Wrap fee on a $300,000 account. The principal issue is that fee-based accounts are sold on the basis of cost without adequate comparison with commission alternatives and without demonstrating the impact of the fee (Hurdle) over the long term.

In the attached illustration, a 1.5% wrap fee shortens payout by 6 years and the reduction in growth amounts to nearly 317% of the cumulative fees over 19 years. A passively managed alternative such as Vanguard 500 index fund carries only 20 basis points of annual costs. The customer cannot make an informed decision without that information.

Most firms only identify the fee percentage.but, that misleads the long-term investor into believing that the fee is nominal. Fee-based accounts should be offered only with projections showing the impact of the fee over the entire investment horizon. Virtually no financial plan computes the fee impact in its projections yet consistently show 10% growth.

Customers should be advised of passive management alternatives as well as normal discounted commission rates over the identical period. Most investors never appreciate that in order to achieve the now standard 10% growth they need higher risk investments then 10% growth would suggest.

Finally, Asset-Gathering, which is the vehicle for fee-based accounts have a massive undisclosed conflict, far greater than any risk of churning. For example, an asset-gatherer with $100mm under management ($1.5 million in gross annual fees) has a significant conflict in down markets. In bear markets, conservative investments such as bonds or low-turnover stocks such as utilities, Reits etc. are unsuitable for a 1.5% fee (roughly 25-50% of the income). But moving clients out of growth equities into conservative investments for even half the portfolios would cut the broker's income by half. Consequently brokers maintain client accounts in high-risk equities, hoping to ride out the storm rather than liquidate and go to cash.

In my practice it is rare indeed to see low-risk, slow-growth, or income investments in fee accounts, especially ~~during~~ periods when conservative portfolio rebalance is urgently needed.

Frederick Rosenberg

Table	1					
Mr Age	60	Amt Inv	$ 300,000	Salary	60,000	
Ms. Age	56	Used CPI***	103.10%	Interest	5,000	
Year	2000	Fee%**	1.50%	Social Sec	-	
Start Year	0	Expen/mo	$ 5,000	Other	-	
		Growth Rate	110.00%	Total Cur Income	65,000	N

Ms. Age	Mr. Age	#	Yr	Exp/Year	Income/ Year	Balance No Fee	New Bal Post Fee	Fee	End Balance Post Fee	Cum Fees	True Fee Impact	True Cum	Year
56	60	0	2000	60,000	65,000	305,000	305,000	4,575	300,425	4,575	4,575	100%	2000
57	61	1	2001	61,860	67,015	341,171	336,138	5,042	331,096	9,617	10,075	105%	2001
58	62	2	2002	63,778	69,092	381,134	370,052	5,551	364,501	15,168	16,633	110%	2002
59	63	3	2003	65,755	71,234	425,275	406,979	6,105	400,874	21,273	24,401	115%	2003
60	64	4	2004	67,793	73,443	474,017	447,176	6,708	440,468	27,980	33,548	120%	2004
61	65	5	2005	69,895	30,719	478,325	441,422	6,621	434,801	34,601	43,525	126%	2005
62	66	6	2006	72,061	31,672	481,729	433,852	6,508	427,344	41,109	54,385	132%	2006
63	67	7	2007	74,295	32,653	484,096	424,272	6,364	417,908	47,473	66,187	139%	2007
64	68	8	2008	76,599	33,666	485,279	412,473	6,187	406,286	53,660	78,993	147%	2008
65	69	9	2009	78,973	34,709	485,117	398,224	5,973	392,251	59,634	92,866	156%	2009
66	70	10	2010	81,421	35,785	483,429	381,276	5,719	375,557	65,353	107,872	165%	2010
67	71	11	2011	83,945	36,895	480,016	361,357	5,420	355,937	70,773	124,079	175%	2011
68	72	12	2012	86,548	38,038	474,658	338,170	5,073	333,098	75,846	141,560	187%	2012
69	73	13	2013	89,231	39,218	467,109	311,393	4,671	306,722	80,517	160,387	199%	2013
70	74	14	2014	91,997	40,433	457,100	280,675	4,210	276,465	84,727	180,635	213%	2014
71	75	15	2015	94,849	41,687	444,332	245,633	3,684	241,949	88,411	202,383	229%	2015
72	76	16	2016	97,789	42,979	428,474	205,852	3,088	202,765	91,499	225,710	247%	2016
73	77	17	2017	100,820	44,311	409,162	160,881	2,413	158,468	93,912	250,694	267%	2017
74	78	18	2018	103,946	45,685	385,991	110,228	1,653	108,575	95,566	277,417	290%	2018
75	79	19	2019	107,168	47,101	358,517	53,358	800	52,558	96,366	305,959	317%	2019
76	80	20	2020	110,490	48,561	326,246	-	-	-	-	-	0%	2020
77	81	21	2021	113,916	50,067	288,637	-	-	-	-	-	0%	2021
78	82	22	2022	117,447	51,619	245,090	-	-	-	-	-	0%	2022
79	83	23	2023	121,088	53,219	194,944	-	-	-	-	-	0%	2023
80	84	24	2024	124,842	54,869	137,468	-	-	-	-	-	0%	2024
81	85	25	2025	128,712	56,570	71,859	-	-	-	-	-	0%	2025
82	86	26	2026	132,702	58,323	-	-	-	-	-	-	0%	2026
83	87	27	2027	136,815	60,132	-	-	-	-	-	-	0%	2027
84	88	28	2028	141,057	61,996	-	-	-	-	-	-	0%	2028
85	89	29	2029	145,430	63,917	-	-	-	-	-	-	0%	2029
86	90	30	2030	149,938	65,899	-	-	-	-	-	-	0%	2030

* Year 5 End Salary -($60,000)start Social Security +$15,000=($45,000)

** 1.5% Wrap Fee

*** 3.1% CPI

Wrap-Fees, Managed Accounts, Financial Plans

A Trinity of Abuses for the 21st Century

By Frederick W. Rosenberg Esq.

Preface

Recent experience suggests that the days of the retail stockbroker are numbered. In fact, there is a significant trend gaining acceptance in the brokerage industry, Asset Gathering, in which registered representatives are encouraged to prospect for clients and then to hand off investment management responsibility to selected specialized portfolio managers or mutual funds. This strategy often equates to a "bait-and-switch" in which a broker first promises to take on account management only to switch the unprepared customer into a fee generating, professionally managed portfolio.

For the broker dealer (BD), the strategic advantages of fee-based accounts are immediately apparent, such as tapping into a new source of revenues, eliminating broker error and abuse such as churning, annuitizing commission income, and realizing substantial savings through reductions in retail brokerage personnel. Brokers are for the first time suggesting to customers that for a low annual fee they can obtain the services of a professional, pooled-investment manger, (to do what the customer expected the broker to do) for no greater expense than normal transaction costs. The more the customer commits to the program, the lower the annual fee percentage.

Asset Gathering methodology incorporates a spectrum of products and services to cement customer dependence such as wrap-fee accounts, financial plans, managed portfolios, proprietary funds, checking and credit card services, credit line (margin), direct deposit, and a panoply of other specialized reports and market letters that intentionally bind a customer's assets and finances to the brokerage account. These products and services originate not in the research or accounting departments, but almost always in the sales and marketing divisions whose goal is to tie the investor financially and psychologically to the BD over the long-term thereby building an annuity of fees.

The brokerage industry clearly understands that there are legal duties occasioned by its fiduciary, advisory, and banking services, and that investment management by individual brokers is a wellspring of potential liability that is best eliminated whenever possible. Some states make brokers fiduciaries by law. But to understand the link between broker liability and broker conduct, read DeKwiatkowski v. Bear Stearns, US Court of Appeals, Docket No. 01-7112, 2nd Circuit, 9/19/2002, which amply demonstrates that it is often essential to prove that the broker fostered and induced the customer's reasonable fiduciary reliance as a necessary component of proving abusive conduct.

If you allow yourself to ignore these issues you may find yourself searching through BD policies and procedures manuals in the attempt to fit some account abuse into a predetermined supervisory category that will hopefully convince an arbitrator that your client should get his money back. Worse, you could mire yourself in a sideshow of confidentiality agreements and discovery motions only to be disappointed in the result. If you can demonstrate that fee-generating accounts are replete with conflicts of interest and are intentionally and structurally susceptible to abuse, you may, in many cases, be able to establish the necessary predicates to BD liability.

Take advantage of the economic environment we are now in. Every article, financial plan, analytical report, and market analysis stresses the significance of each percentage point of costs, fees, inflation, and interest rates. A 2% wrap-fee looks to be outrageous in a period in which an 8% return is aggressive and the Fed Funds rate is 1.25%.

Wrap-fees, sometimes amounting to 2.25% annually for life, often exceed comparable mutual fund fees; e.g., "A" share management fees are usually less than .75%; B shares, 1.25%, and C shares 1.75%. Worse, the mutual fund could be held in a fee-based account creating an insurmountable hurdle to conservative growth. Illustrate that point arithmetically!

Focusing on every percentage point of fees is critical and convincing so long as you're able to persuade the panel of the substantial undisclosed conflicts of interest and self-dealing that are demonstrable in a wrap-fee account over a reasonable time-frame, eg.7-10 years. This also means that typical annual comparisons such as turnover, cost to equity, margin % etc, are often not evidentiary of wrap-fee abuse.

When the BD's defense amounts to allegations that the client is a moderate to aggressive long term investor, fee accounts can frequently be shown to be far more in the broker's best interest over time than that of the customer, a fiduciary breach under the broker's own assumptions. Over a ten-year period the excess of fees over commissions approaches unconscionable surcharge levels. Compare total fees and account expenses over 10 years with projected commissions and you will be able to make a compelling case that fee-accounts are abusive.

- **Glossary**

- **Asset Gathering** is the term brokerage firms use to describe their strategy of capturing all of a customers banking, financing, credit card, and investments in a single relationship. Unfortunately, virtually all these services effectively tie a customer's finances to the uncertainties of the market, and frequently require a margin account to prevent checks and credit card payments from bouncing. Brokers engaged in Asset Gathering have only two ways to increase their income, (no commissions you know), 1) adding more clients, or 2) growing the assets through appreciation. It is far easier to understand broker intent if you can tie his or her over-aggressiveness to his own objectives of increasing his or her "assets under management".
- **Managed Portfolios:** *Minimum Assets 100K+, Annual fee 1%-3%, No Commissions; Broker Shares in Fee.* All or a portion of a customer's investments are managed on a discretionary basis by identified portfolio strategists who direct investment according to a defined portfolio model. The broker recommends 3 to 6 such managers with various investment styles and risk profiles and, with the customer, chooses one or several. Known as "Consults" at Merrill and "Access" at UBS Paine Webber, most major BDs have a similar programs under their own service marks. The claimed benefit to the customer is "professional management" at no additional cost over and above normal commissions, (a freebie so to speak). The benefits to the brokerage firm are enormous as will be discussed below.
- **Cash Management Accounts:** *Small annual fee.* Virtually all firms provide cash management capability that involves automatic sweeps, checking, credit card, specialized reporting, and a margin agreement. Often a customer erroneously believes that he's actually getting a "managed portfolio." Yet, as with basic cable service, the cash-management account is a platform for sales of other products and services such as managed portfolios, checking, credit card, margin lending, newsletters and research, financial plans, specialized reports etc.

- **"Wrap-fee" Accounts:** *Annual fee 1%-3%.* To counter the potential for commission driven trading abuses, BDs have adopted an annual-fee revenue model generically known as "wrap-fee account." Ostensibly the purpose of wrap-fees is to reduce account costs and commission expense into one small asset-based fee that is justified on the basis of savings, while simultaneously removing the incentive for abuses such as churning. This will be elaborated upon in detail
- **Financial Plans** are usually detailed analytical reports that serve as the foundation of the customer's financial needs. Based upon answers to a detailed questionnaire, the Financial Plan is primarily a sales tool used to build customer confidence and reliance, while getting the customer to identify all his investable assets. Ironically, many customers are charged a fee for giving up their personal financial information. The most obvious problem with financial plans is the failure to implement the recommendations. More importantly however, virtually all financial plans are incomplete and misleading offering a lawyer an open target of attack against broker credibility. Failure to challenge the underlying assumptions of the financial plan, (as most lawyers fail to do), is tantamount to ratifying many flawed assumptions and selective omissions that raise questions about a broker's intent and competence, and may amount to ratification of a flawed standard that could limit recovery. As will be shown below, most of the underlying assumptions either overstate or omit important facts leaving the customer with a typically erroneous portrait of his or her long-term financial condition that usually leads to bad investment decisions.

Targets of Opportunity

__**Product A.** **FEE BASED ACCOUNTS:** The *Abuse of Choice for the 21st century!* The intended consequences of fee-based accounts are 1) the annuitization of commission income regardless of market conditions and account activity, 2) the selling of unnecessary services to customers, 3) the separation of brokers from investment recommendations eliminating some types of potential commission-driven liability, 4) the binding of the customer to the BD making transfer of accounts difficult, and 5) the promotion of an erroneous perception that wrap-fees eliminate conflicts of interest. If the wrap-fee includes asset-management, a broker no longer has to actively manage his accounts to generate commission income. By parking a customer's investments in any number of fee-based managed accounts or pooled funds, the broker will free him or herself to focus on marketing activities, financed by annual fee income for the life of the customer. BD publications and promotional material represent that wrap-fees eliminate conflicts of interest ostensibly because they substitute fees, typically 1.5 %-3.0% of portfolio value (not account equity) for commissions as if churning were the only concern. But as described below, fee-based accounts are replete with undisclosed conflicts of interest that can support claims of material misrepresentation.

__**POINT A1.** *Long-Term Strategy, Long-Term Analysis*: Asset gathering is a long-term strategy designed to produce an asset-based revenue stream over several years while binding the investor over that term. Consequently, your analyses must incorporate projections over the lifetime of the investor or at a minimum, a specific period such as 10 years, if you're to be persuasive in these cases. For a $200,000 account growing 5% annually over 10 years, total wrap-fees at 2% aggregate to $46,466. By contrast projected commissions at 1.25% of 60% annual turnover, (30% buys and 30% sells) aggregates to only $18,562 (Table 1). If you try to make your case by comparing costs year to year, (not aggregated over time) you will grossly understate the broker's intended benefit from fees and weaken your case by comparison.

___*Note. A1 a.* Don't give in to setting your client up for a fall. Always question whether the customer really needed active portfolio management as well as the annual-fee percentage. For large accounts contrast "A" share mutual funds with breakpoints and low management fees with the managed portfolio's costs and expenses. Be aware that the only way to analyze this factor is to project the impact and benefits over several years. Non-fee accounts will always grow faster than fee-based accounts and without the additional hurdle of the fee, the non-fee account can accomplish its objectives far less aggressively. That's pretty compelling if you illustrate that point.

__**POINT A2.** ***"Wrap-Fees- "Less is More, The Zen of Churning."*** Two principal distinctions between Churning and Wrap-fees are 1) time frame and 2) broker trading activity. Regarding time, most churning occurs over brief periods, 6 months to 3 years, or until the account is consumed by commissions, or until all the money is gone. With wrap-fees, account depletion is more insidious, occurring over several years if not a decade or more in a steady drip, drip, drip of fees each year until they aggregate to unconscionable levels. Churning is illegal and relatively easy to distinguish and supervise. Wrap-fees are legal and have not been adequately scrutinized either by regulators or the plaintiff's bar; they are gaining acceptance without necessary challenge. In many cases the customer is actively deceived by misrepresentations and omissions about the conflicts of interest associated with wrap-fee accounts as well as the excess undisclosed financial benefits inuring to the broker at the expense of the Client.

___*Note. A2 a.* ***Look at the Whole "Book."*** Brokers, who use wrap-fees, tend to have most of their customers in wrap-fee accounts. This should be addressed in discovery to show the asset-gathering objective. Determine the percentage of accounts under wrap-fees as well as the percentage of income generated through those fees.

___*Note. A2 b.* **Compare:** A $200,000 portfolio with a 2% wrap-fee generates an annual fee that is identical to 1% commissions with annual turnover of 100% buys and 100% sells. A conservative portfolio, with turnover of 30% buys and 30% sells, would produce commissions of $18,562 at 1.25% over 10 years in contrast to $46,446 in wrap-fees (250% of commissions) over the same period, an excess of $27,885 ($2,788/year) in costs. The conclusions are evident, for conservative accounts with less than 100% turnover/year an investor is likely to be far far better off paying the commissions. Arguably this type of analysis should persuade a panel that for many conservative and senior citizen investors, wrap-fees equate to a structural commission driven abuse that heavily rewards the broker and offers only illusory benefits to the customer. Smoke it out!

____A2b Issue a) The operative litigation strategy will be to prove there to be no additional value for the extra cost, and that the only beneficiaries of the wrap-fees are the broker and the asset manager. The BD will defend that the customer's excessive costs are justified by the added value of the portfolio management, but rarely will performance comparisons between managed portfolios and conservative indexes or mutual funds support that conclusion over a 10 year period, especially after fees and costs. Do the math!

__**POINT A3.** ***Fees v Commissions; How Does a BD Benefit?*** One method of arriving at a fair market value for a company such as a BD is to place a value on its forecasted revenues. As those in the banking industry will attest, annual-fee income is a more reliable revenue source than commission revenue generated by trading. For most lenders and investors, fee income is deserving of a higher multiple than commission revenues because of its stability, reliability, predictability, and relative immunity against cyclicality. Merely converting revenues from commissions to fees should have an immediate impact on the market value of the BD's stock to analysts.

__**POINT A4.** ***Do the Fees Fit the Investment?*** You can never know if a wrap-fee is suitable unless you analyze the underlying investments under fee. The wrap-fee percentage should be directly related to the type and appropriateness of assets under fee, e.g. treasuries yielding 5% couldn't support a 2% wrap-fee. Mutual funds should rarely if ever be in wrap-fee accounts. Income accounts cannot support fees in excess of .5%. Identify any component of the portfolio that should not be in the Fee account.

__**POINT A5.** ***When is an 8% return not 8%:*** You cannot assess risk using net returns. Only gross return before fees should be used. Make the point that achieving an 8% growth rate without a fee is exponentially less risky than achieving 8% return net of the 2% fee. While both net out to 8%, one account needs to gross 10% before fees, adding far greater risk to achieve the identical result. Illustrating risk and performance with net returns is thoroughly misleading. In short, fees mandate higher risk investments. The customer sees 8% projections and is not sophisticated enough to perceive when 8% really means 10%.

__**POINT A6.** ***Margin:*** Wrap-fees are calculated on "gross portfolio value," not "net equity" (portfolio value less debit balance). In margined accounts wrap-fees frequently are double that of the non-margined account with the identical account equity, effectively leveraging the fee! (Tables 2 and 4). When those fees are added to margin interest, it results in an almost insurmountable hurdle to conservative if not moderate growth. Look at Table 2 (5% appreciation) and Table 4 (10% appreciation) that are based upon a 2% wrap-fee on a $200,000 account. Table 2 illustrates that with 5% annual appreciation, 6.5% margin interest on the debit balance of 40%, and a 2% wrap-fee, account equity barely breaks even over 10 years ($207,000) in the margin account while account equity in the unmargined account grows to $267,662. Remarkably, despite its poorer performance, the cumulative fees and interest expenses on the margin account are $156,362 in 10 years compared to only $46,446 on the unmargined wrap-fee account illustrating the advantage to the BD of leveraged fee-based accounts. Even with 10% growth (Table 4) unmargined account equity is significantly higher than margin account equity after 10 years, $432,949 vs. $337,409 yet the margin account fees and interest aggregate to $201,554 vs. $60,402 for the cash account. This undisclosed disparity only highlights the impossible hurdles that fee-based accounts suffer.

___*Note. A6 a.* Margin investing and wrap-fees are basically incompatible. In virtually all scenarios the margin account adds risk and cost, and reduces return over the long-term. This suggests that margin is only a short-term device to enhance immediate returns, and that over the long term, margin's primary benefit in a wrap-fee account is to enhance fee and interest income.

___*Note. A6 b.* Margin not only leverages fees, but in combination with wrap-fees substantially reduces growth by siphoning off investable funds, substantially negating the benefit of compounding.

___*Note. A6 c.* Many customers never fully understand that using margin to pay monthly expenses, to purchase a car, or make other general purchases not only incurs an interest expense but also adds 1.5%-3% wrap-fee expense on top of that. Rarely does the customer comprehend the costs to carry his purchases or the negative impact those costs have on the underlying growth of his portfolio. A home equity line is always a better choice and there are no Reg. T restrictions or forced liquidations to boot.

___*Note. A6 d.* While margin amplifies risk, margined portfolios are rarely rebalanced to reduce the additional risk caused by margin. Thus, not only is the customer paying both fees and interest at a combined "junk-bond" rate, but is also increasing risk and reducing returns.

__**POINT A7.** ***<u>Fostering Asset Gathering</u>***: Wrap-fees and managed accounts typically facilitate a broker's promotional and marketing activities, something that most brokers engaged in traditional account management activities have little time to do, i.e. a broker can churn only a few accounts at a time, but asset-fees can be applied across the board to all customer accounts. Churning is a tactical violation against the individual customer; wrap-fee accounts are structural changes focusing on maximizing revenues from the broker's book while facilitating the marketing capability of the broker.

__**POINT A8.** ***<u>Failure to Supervise</u>***: Argue that wrap-fees should mandate regular supervisory reviews to protect the client against excessive costs on low or moderate turnover accounts. There should be an analysis annually to compare fees with commissions. Be careful of comparisons utilizing standard, undiscounted, commission schedules. Commission discounts are the norm for good customers. The SOC should allege that the failure to fully disclose costs and to supervise fee-based accounts is unsuitable at best, and motivated by an undisclosed conflict-of-interest related to fee income.

__**POINT A9.** ***<u>Higher Turnover: Self-Fulfilling Abuse</u>***: Wrap-fees can only be justified on a cost saving basis. Inactive accounts are not suitable. Therefore many wrap-fee accounts are put under more active management to assure sufficient trading activity to justify the fees (self fulfillment). Unfortunately, for most investors and especially retirees with conservative income and capital preservation objectives, they're paying for services they could really do without and incurring greater risk and higher hurdles to profitability in the process.

___*Note. A9 a.* If the 2% fee reduces net profits from 8% to 6%, it is in the client's best interest to buy a 6%, AA rated corporate bond, skipping the annual fees and reducing investor stress.

__**POINT A10.** ***Unsuitability and Disincentives for Conservative Investments***. Wrap-fee accounts are unsuitable for very conservative investments e.g. fixed income (bonds), fixed dollar (CD's), stable dividend paying stocks, and self liquidating investments such as Ginny Maes that normally yield 3%-7% because none can justify an annual wrap-fee that decreases the yield and increases risk. For this reason, those investments are not likely to be recommended to the customer and if they are, they are purchased via higher commission mutual funds and unit trusts outside of the wrap-fee agreement. If these investments wind up in a fee-based account, it's a clear abuse because of unconscionable double fees.

__**POINT A11.** ***Watch for Account Splitting***: Some brokers set up a wrap-fee account for inactive assets and a commission-based account for active trading accounts. In fact most BD's limit account activity in fee-based accounts. Always remember that fees can be eliminated entirely, simply by placing the inactive assets into the commission account, (like in the old days). Splitting off conservative assets into wrap-fee accounts is an abuse intended to monetize low turnover assets.

__**POINT A12.** ***Total Costs***: Wrap-fees should be analogized to paying mortgage points on the principal balance every year for the life of the loan. Always evaluate and quantify Wrap-Fees over the period forecasted by a financial plan, ten years, or the actuarial lifespan of the customer. For a retiree whose accounts should have little or no turnover, the aggregate fees will prove to be abusive and based more on ability to pay than for the value of the services.

> ___*Note. A12 a.* Chances are that your client will make a very credible witness when testifying that had it been disclosed that brokerage fees would amount to $75-$100,000 over ten years, he or she would never have agreed to the fees or the account manager, even if it meant the broker had to manage the account on commissions.
>
> ___*Note. A12 b.* Taxing Income: For Income oriented accounts even a 1% wrap-fee typically equates to a 12%-50% tax on dividends and interest at best, and at worst, an erosion of equity in addition to inflation. In Electronics Industries Assn v. FCC 554 F2nd 1109 (1976) the Court reasoned, "ability to pay is frequently used as justification for levying a tax but is of very limited value in assessing a fee which is supposedly related as closely as reasonably possible to the cost of servicing each individual recipient." E.g. there is no evidence that an account that appreciates by 100% requires double the expense to manage than it did prior to its appreciation. Does this amount to sharing in an account or worse?

__**POINT A13.** ***Sharing in an Account***: Asset-based fees are easily analogized to "Sharing in Accounts", a practice prohibited under NASD 2330(f)(1). The truth is in many ways they're worse, they're recurring and non-performance based, and the broker need not risk any of his or her money to participate in growth. The recurring fee also amounts to double taxation on the account's core value year after year. This should be seen as an abuse particularly for those accounts for older or retired investors.

___*Note. A13 a.* Remember, Asset Gatherers can increase their fee income in only two ways, 1) grow the assets, and 2) find new clients. Is there any question that some aggressive, wrap-fee compensated brokers substitute their own higher risk, growth oriented objectives for the customer's more conservative ones?

__**POINT A14.** ***How the BDs Views Fees***: A modest $200,000 account would have to appreciate $40,000 just to pay an annual 2% wrap-fee and breakeven over 10 years (2% growth). With the 10% growth typically forecasted in most financial plans, the BD would generate $60,402 in fees over 10 years or roughly 37% of the initial investment. Commissions on the other hand would be just $24,225 a savings of $36,177 (Table 3). Savings in general administrative and personnel expense under the asset-gathering model further supplement this direct revenue benefit. Also note that the equity in the commission account is $53,988 greater than in the wrap-fee account. What price does the customer really pay?

__**POINT A15.** ***Liquidating Stocks to Generate Income.*** Income oriented investments are typically unsuitable for wrap-fee accounts because the fees significantly reduce yield by 20%-40%. Many brokers circumvent this suitability problem by over-concentrating the entire portfolio in growth stocks and then liquidating a percentage of the portfolio monthly to generate cash flow. This is an abuse in which volatile long-term investments are used inappropriately as an income source and to generate a fee that would be unsuitable for an income investment such as a bond.

__**POINT A16.** ***Over-Concentration Rationale***: Many wrap-fee accounts require minimum assets to qualify for favorable wrap-fee rates. But, parceling-out inappropriate investments into non-fee accounts will reduce the assets available for a fee-based portfolio, frequently below minimum account size. As a consequence, brokers ignore conservative and income investments to purchase fee-generating equities in far greater concentration than is appropriate for most investors who require safety and income.

__**POINT A17.** ***Mutual Funds***: Because mutual funds already charge management fees and pay commissions, they are entirely unsuitable for wrap-fee accounts. Often, the broker will receive both dealer reallowance (commission) on a mutual fund as well as the wrap-fee. A 2% wrap-fee plus a fund's 1.25% operating costs, results in an insurmountable barrier to growth.

___*Note. A17 a.* Retaining mutual fund discounts, commissions on UIT's etc. is permitted regardless of the wrap-fee. Be aware of A, B or C shares in a wrap account. While C shares pay no commissions they have the highest management fees (1.75%). In evaluating suitability you need to determine the annual management fee of each mutual fund and add it to the wrap-fee and any margin interest to determine hurdle rate.

__**Product B.** **MANAGED PORTOFLIOS**: View Managed Portfolios skeptically. Older customers with diversified and balanced portfolios do not require active management. Unfortunately, while most customers initially expect that the broker will be making recommendations, they wind up paying for account management services they never intended. For retirees and senior citizens, an account suitably allocated among low cost, low turnover, US, corporate, or municipal bonds with laddered maturities, low cost/equity index funds, and fixed income unit trusts or mutual funds should require very little active management, and likewise should experience de-minimis turnover with very low cost over time.

__**POINT B1.** Managed Portfolios are add-on services sold to the customer at extra cost. Too often however the managed portfolio is the highest risk alternative and not usually needed. Normally the client expects the broker to manage the account and may continue to assume that is what the broker is doing. But most BD's would prefer brokers not to pick stocks, the name of the game being "Assets Under Management." Typically the broker erroneously represents that portfolio management services can be added for the cost of normal commissions alone, and so the customer agrees to the logic believing he's getting added value for no additional cost. Unfortunately, oftentimes the representation is totally bogus, misleading, and unsupported in practice.

__**POINT B2.** Eliminating asset management fees could save tens of thousands of dollars over a client's lifetime even on modest accounts, typically without reduced performance. Never is the client given a fair or realistic comparison of his choices. Instead the client is generally kept in the dark about the potentially significant savings of commission-based accounts over wrap-fees accounts. Neither is it ever made clear that the broker is an Asset Gatherer who has no interest in being responsible for daily investment recommendations and account supervision. Instead the customer is induced to purchase management services as if the decision is self-evident and without additional cost or risk. Without understanding the hurdles, the customer can never make a reasoned decision.

__**POINT B3.** ***About Comparisons:*** As a rule of thumb, commissions should amount to no more than 1%-1.5% of the annual turnover (buys + sells). Customers should receive substantial discounts off the standard commission schedule. A conservative portfolio should experience less than 20%-40% turnover annually (compare with analogous mutual fund). Compare projected commissions with the aggregate 2 % wrap-fees over for the life of the account and you'll build a case for intent.

___*Note. B3 a.* For a conservative $200,000 account, the $2,700/year difference between the $1,524 in year-one commissions and the $4,045 in annual wrap-fees (Table 1, 4Q Yr1) projected over 10 years adds additional expense of $225/month and $27,000 over 10 years. For a retiree, this could amount to income for a year.

__**Product C.** **FINANCIAL PLANS:** A Financial Plan is the leading Asset Gathering tool, one that provides a detailed roadmap to all of a customer's investable assets. Financial Plans forecast income, expenses, and investment growth as a way of inducing customer trust. Unfortunately virtually all Financial Plans are unrealistic, overstated, and seriously misleading. Furthermore, the balanced portfolios typically recommended by financial plans are frequently ignored.

__**POINT C1.** ***Overstating Inflation***: On average Financial Plans overstate the rate of inflation by anywhere from 1/2% to 1.75% resulting in a gross overstatement of future expenses. The average CPI Inflator for the last decade is 2.6%. A Financial Plan using a 3.1% CPI will overstate a client's needs by nearly $5,000 ($416/mo) in the tenth year for every $100,000 needed in year one. In year 15, the overstatement is double. Reliance on the higher CPI will necessitate higher risk investments than appropriate were a more moderate CPI used. Always allege that the CPI rate is too great and highly misleading for an older or retiring investor. (See discussion below "The CPI Illusion").

__**POINT C2.** ***Misapplication of Growth Rate in Projections:*** Virtually every Financial Plan incorporates a "Growth Table" illustrating the impact of portfolio appreciation at a recommended rate, often 10%. The table typically subtracts the projected annual inflated cash needs from the appreciated portfolio each year to arrive at the annual portfolio value. This presentation is seriously misleading and is clearly subject to serious attack. Older investors and retirees really have two well-defined objectives, 1) to not outlive their income or lifestyle, and 2) to grow their estate. To achieve objective # 1, a portion of the investor's current portfolio should be set aside and invested at very conservative rates to provide certainty that the required income will always be available and that the principal needed to assure that revenue stream is not depleted. Thereafter, any remainder would then be available for estate building, even at a more aggressive rate.

> ___*Note. C2 a.* For example, if 50% of an investor's current portfolio needs to be invested in conservative, income generating instruments, only 50% of the portfolio would be available for estate building, albeit at the higher risk 10% growth rate. Arguably, the customer's objectives could be achieved at a blended rate of 6.5%, ((3%+10%)/2) not 10% as projected. By applying a 10% growth rate to the entire portfolio, not only is virtually everything subject to higher risk, but the investor is never given the opportunity to make appropriate investment decisions. Instead the investor is typically seduced into thinking he or she can achieve the projected growth conservatively.

> ___*Note. C2 b.* When analyzing financial plans and cross examining the broker, be certain to draw the distinction between investing to insure current lifestyle, and investing to build an estate. Unifying both objectives under a common 10% growth rate is both misleading and unsuitable.

__**POINT C3.** ***Failure to Reallocate***: Virtually all Financial Plans fail to reallocate a portfolio over the entire life of the investor. The logical inference from these forecasts is that at age 50, 60, 70, 80, 90, or 100 the client's investment objectives and risk tolerance would remain unchanged, an absurd assumption. Every financial planner will tell you that one's investment objectives and risk tolerance become more conservative with advancing age necessitating the periodic portfolio rebalancing that is typically omitted from financial projections.

__**POINT C4.** ***Ignoring Margin***: Margin significantly leverages risk, even for a conservatively allocated portfolio. For customers whose accounts are margined, their financial plan will likely be woefully inadequate on the subject. The projections will undoubtedly fail to reduce projected growth rates by margin interest (remember every percentage point reduction in growth is very meaningful over time); fail to include margin interest in monthly expenses, and will likely fail to conservatively adjust the portfolio allocations towards fixed income to defray the interest expense and reduce risk. Whether these omissions are a negligent or criminal is a matter of degree and scienter.

__**POINT C5.** ***Failure to Disclose Impact of Fees and Costs*****:** All Financial Plans stress the profound significance of every percentage point of costs, inflation, and compounded returns that can over time have an enormous impact on safety, growth, and risk.

___*Note. C5 a.* Financial Plans almost never adjust assumptions for the 2%+ annual wrap-fee. This significantly overstates projected appreciation and projected cash needs, while understating the risk necessary to achieve the net result. Among those important omitted factors that would negatively affect growth projections are wrap-fees, margin interest, and commissions, typically resulting in overstated and misleading growth projections. The customer typically accepts a "conservative" 10% return never understanding that the account actually needs to achieve a 13% return to net out 10%. You should clearly allege that the reason "above the line" expenses, such as transaction costs, margin interest, commissions, and wrap-fees, are entirely omitted from the financial plan is because the BD quite simply wants to prevent the customer from gagging on the totals over the life of the projections.

__**POINT C6.** ***Ignoring Revenue Sources*****:** Most Financial Plans fail to incorporate the tax-free cash flow generated from a sale of a personal residence or the obtaining of a home equity loan to conservatively cushion cash needs in advanced age. Most financial plan projections also fail to incorporate the revenue impact of a cash or installment sale of a professional practice or business. Older investors also trade down from larger homes to smaller ones in transactions that also free up cash. In short, most financial plans are highly biased towards securities-based solutions and ignore alternatives that could reduce market exposure if properly done. The failure to incorporate all potential revenue sources almost always overstates the customer's income deficiencies for planning purposes.

__**POINT C7.** ***Faulty Tax Assumptions*****:** Many Financial Plans utilize post-retirement tax assumptions on the incremental tax rate (33%) in contrast to the effective tax rate 12%-15% for most retirees thereby overstating the tax impact on the projections.

__**POINT C8.** ***Failure to Contrast Management Fees and Commissions:*** The Financial Plan never contrasts wrap-fees with commissions to allow the customer to make an informed investment decision about the fee-based account. Neither do Financial Plans ever compare the costs of an actively managed account against a passively managed portfolio that is well positioned in a broad cross section of contra-performing investments, index funds, federal, municipal, or corporate bonds, cash equivalents, unit trusts, and real estate investment trusts. It also is not a reason to accept the additional risk just because the manager has consistently out-performed his bogey by the amount of his fee.

The CPI Illusion

Misapplied CPI inflation rates are responsible for substantial error in many projections and often result in investors chasing too high returns and incurring far greater risk than necessary to achieve long-term objectives. In part this is because many brokers erroneously believe that is actually more conservative to use a higher CPI on expenses than a lower one, getting it backwards. Remember, the lower the CPI inflator the more conservative the growth rate and the more conservative the investment.

The CPI tracks changes in a weighted basket of goods and services to arrive at the inflation rate. Older investors and retirees have decidedly different spending patterns and financial circumstances than the population at large and Financial Plans never make any adjustment. For example, in the CPI, housing expenses such as rent and furnishings are weighted at 40% of the index. Yet most retirees and senior citizens experience a reduction in housing costs as they pay off mortgages, move into retirement communities where expenses are substantially less and services such as transportation are included, or simply move into smaller accommodations after selling their home. Medicare will defray health-care costs as well. In short, using a full CPI for a retiree will likely overstate forecasted needs leading to investments with too high a risk. (See Appendix A, U.S Department of Labor's publication, "The Consumer Price Index—Why the Published Averages Don't Always Match An Individual's Inflation Experience." (See also Table 13, a spreadsheet showing the impact of various CPI inflator rates).

END NOTES

In asking for pre-publication comments from colleagues, I was queried as to whether fixed criteria were appropriate to establish abuse. In my opinion, the answer is no. I have not incorporated specific hard and fast rules of thumb except for commission rates. Rather, my premise is that investors should be well informed of their choices. Paying asset-based fees or hiring an asset manager can be easily analyzed, although it rarely is. Yet the decision to hire a manager or to pay an annual fee is every bit as important as any other investment decision. If the customer is kept in the dark on the subject, then the fiduciary duties of the broker mandate the choice most favorable to the investor.

A lawyer or his expert needs to do a comparative analysis to prove that material facts were omitted in presenting the fee-alternative, e.g. that fees over 10 yrs will be $65,000, 3 times that of the projected $22,000 in commissions. If the higher fees can be cost-justified, then the broker should make that case to the customer instead of making unsupported and misleading claims that there is no difference. Unquestionably, the BD already has done the financial analysis of fee-based accounts and could easily compare fee-based accounts to commission accounts if it chose.

Many colleagues had also raised questions as to why certain abusive activities occur in wrap-fee accounts especially when there is no commission motive. Fee-based accounts are part of a shifting paradigm aimed at annuitizing the revenue stream over the long term. Long-term analysis is the only way to identify the broker's strategy and objectives in fee-based accounts. Since the delta between commissions and fees grows significantly in the later years we are remiss in failing to highlight that fact. Furthermore, if losses come in the latter years of a fee-based account, failure to analyze the account from its inception can also be misleading. That's because focusing solely on the period in which losses occurred is like trying to understand Moby Dick by reading the middle chapter only.

In sum, determining what is abusive vs. what is suitable is really a comparative question, not a threshold question. Instead of having to prove 6x turnover, we have to illustrate why a fee-based account is unsuitable by comparing projected fees to projected commissions. Over time many fee-based accounts produce fees 3-4 times greater than normal commissions, adding excess risk, reducing growth, and impairing performance. Frequently, the only parties who benefit from fee-based accounts are the broker and the asset-manager. That's a fiduciary breach in my book. Fiduciaries are obliged to place the interests of their customers first.

TABLES AND ILLUSTRATIONS

While my discussion and examples are based upon a 2% fee structure with 5% and 10% growth rates, I am including additional tables (5-12) that illustrate the same comparison for accounts with a 1.5% and 2.5% wrap- fees. Table 13 is a spreadsheet matrix based upon CPI.

Wrap Fee v Commissions Tables		Margin Comparison Tables	
Table 1	5% growth, 2% Fee	Table 2	5% growth, 2% Fee
Table 3	10% growth 2% Fee	Table 4	10% growth, 2% Fee
Table 5	5% growth, 1.5% Fee	Table 6	5% growth, 1.5% Fee
Table 7	10% growth, 1.5% Fee	Table 8	10% growth, 1.5% Fee
Table 9	5% growth, 2.5% Fee	Table 10	5% growth, 2.5% Fee
Table 11	10% growth, 2.5% Fee	Table 12	10% growth, 2.5% Fee
Table 13	CPI Inflator Illustration		
Appendix A	CPI- Why the Published Averages Don't Always Match An Individual's Inflation Experience		

Comparison Table; Wrap-Fees Accounts vs. Commission-Based Accounts

Initial Investment	200,000		Appreciation Rate **5.00%** Wrap-Fee **2.00%**
Turnover	60%	*30% Buys & Sells*	
Commission Rate	1.25%		
Periods/ yr	4		

	Wrap-Fee Account			**Commission Account**				**Deltas**	
A	B	C	D	E	F	G	H	I	J
Period	Account Value	Wrap-Fee	Cum Wrap-Fee	Account Value	T/O per Period	Comm'n	Cum Comm'n	Wrap-Fee excess over comm'ns	Comm'n acct equity excess over wrap-fee equity
1Q, Yr1	200,000	1,000	1,000	200,000	15.0%	375	375	625	-
2Q, Yr1	201,500	1,008	2,008	202,120	15.0%	379	754	1,254	620
3Q, Yr1	203,011	1,015	3,023	204,263	15.0%	383	1,137	1,886	1,252
4Q, Yr1	204,534	1,023	4,045	206,429	15.0%	387	1,524	2,521	1,895
1Q, Yr2	206,068	1,030	5,076	208,617	15.0%	391	1,915	3,160	2,549
2Q, Yr2	207,613	1,038	6,114	210,829	15.0%	395	2,310	3,803	3,215
3Q, Yr2	209,170	1,046	7,159	213,064	15.0%	399	2,710	4,450	3,893
4Q, Yr2	210,739	1,054	8,213	215,323	15.0%	404	3,114	5,099	4,583
1Q, Yr3	212,320	1,062	9,275	217,605	15.0%	408	3,522	5,753	5,286
2Q, Yr3	213,912	1,070	10,344	219,912	15.0%	412	3,934	6,410	6,000
3Q, Yr3	215,517	1,078	11,422	222,244	15.0%	417	4,351	7,071	6,727
4Q, Yr3	217,133	1,086	12,508	224,600	15.0%	421	4,772	7,736	7,467
1Q, Yr4	218,761	1,094	13,601	226,981	15.0%	426	5,197	8,404	8,220
2Q, Yr4	220,402	1,102	14,703	229,387	15.0%	430	5,628	9,076	8,985
3Q, Yr4	222,055	1,110	15,814	231,819	15.0%	435	6,062	9,751	9,764
4Q, Yr4	223,721	1,119	16,932	234,277	15.0%	439	6,502	10,431	10,556
1Q, Yr5	225,398	1,127	18,059	236,761	15.0%	444	6,945	11,114	11,362
2Q, Yr5	227,089	1,135	19,195	239,271	15.0%	449	7,394	11,801	12,182
3Q, Yr5	228,792	1,144	20,339	241,807	15.0%	453	7,847	12,491	13,015
4Q, Yr5	230,508	1,153	21,491	244,371	15.0%	458	8,306	13,186	13,863
1Q, Yr6	232,237	1,161	22,652	246,962	15.0%	463	8,769	13,884	14,725
2Q, Yr6	233,979	1,170	23,822	249,580	15.0%	468	9,237	14,586	15,601
3Q, Yr6	235,733	1,179	25,001	252,226	15.0%	473	9,710	15,291	16,492
4Q, Yr6	237,501	1,188	26,188	254,900	15.0%	478	10,188	16,001	17,398
1Q, Yr7	239,283	1,196	27,385	257,602	15.0%	483	10,671	16,714	18,319
2Q, Yr7	241,077	1,205	28,590	260,333	15.0%	488	11,159	17,432	19,256
3Q, Yr7	242,885	1,214	29,805	263,093	15.0%	493	11,652	18,153	20,207
4Q, Yr7	244,707	1,224	31,028	265,882	15.0%	499	12,150	18,878	21,175
1Q, Yr8	246,542	1,233	32,261	268,701	15.0%	504	12,654	19,607	22,158
2Q, Yr8	248,391	1,242	33,503	271,549	15.0%	509	13,163	20,339	23,158
3Q, Yr8	250,254	1,251	34,754	274,428	15.0%	515	13,678	21,076	24,174
4Q, Yr8	252,131	1,261	36,015	277,338	15.0%	520	14,198	21,817	25,206
1Q, Yr9	254,022	1,270	37,285	280,278	15.0%	526	14,724	22,561	26,256
2Q, Yr9	255,927	1,280	38,565	283,249	15.0%	531	15,255	23,310	27,322
3Q, Yr9	257,847	1,289	39,854	286,252	15.0%	537	15,791	24,062	28,405
4Q, Yr9	259,781	1,299	41,153	289,287	15.0%	542	16,334	24,819	29,506
1Q, Yr10	261,729	1,309	42,461	292,354	15.0%	548	16,882	25,579	30,625
2Q, Yr10	263,692	1,318	43,780	295,453	15.0%	554	17,436	26,344	31,761
3Q, Yr10	265,670	1,328	45,108	298,585	15.0%	560	17,996	27,112	32,916
4Q, Yr10	267,662	1,338	46,446	301,751	15.0%	566	18,562	27,885	34,089

F= % of portfolio turnover/period

G=Commissions on the total of buy and sell trades as a % of account equity

I = D - H

J = E - B

TABLE 2

Impact Table: Effect of Margin in Wrap-Fees Account

Initial Investment	200,000	Average Equity %	60%	Appreciation Rate	**5.00%**	Wrap-Fee	**2.00%**
Commission Rate	1.25%	Margin %	40%				
Periods/ yr	4	Margin Interest rate	6.50%				

	Cash Wrap-Fee			Margin Wrap-Fee Account						% comparison		
A	B	C	D	E	F	G	H	I	J	K	L	M
Period	Account Equity	Wrap-Fee	Cum Wrap-Fee	Portfolio Value	Equity	Wrap-Fee	Margin Interest	Total Annual Account Cost	Cum. Costs	Cum Cost as % of Investment	Annual Equity Hurdle Rate	Margin Wrap -Fee as % of Equity
1Q, Yr1	200,000	1,000	1,000	333,333	200,000	1,667	2,167	3,833	3,833	1.9%	7.67%	3.33%
2Q, Yr1	201,500	1,008	2,008	333,667	200,200	1,668	2,169	3,837	7,671	3.8%	7.67%	3.33%
3Q, Yr1	203,011	1,015	3,023	334,000	200,400	1,670	2,171	3,841	11,512	5.8%	7.67%	3.33%
4Q, Yr1	204,534	1,023	4,045	334,334	200,601	1,672	2,173	3,845	15,356	7.7%	7.67%	3.33%
1Q, Yr2	206,068	1,030	5,076	334,669	200,801	1,673	2,175	3,849	19,205	9.6%	7.67%	3.33%
2Q, Yr2	207,613	1,038	6,114	335,003	201,002	1,675	2,178	3,853	23,058	11.5%	7.67%	3.33%
3Q, Yr2	209,170	1,046	7,159	335,338	201,203	1,677	2,180	3,856	26,914	13.5%	7.67%	3.33%
4Q, Yr2	210,739	1,054	8,213	335,674	201,404	1,678	2,182	3,860	30,774	15.4%	7.67%	3.33%
1Q, Yr3	212,320	1,062	9,275	336,009	201,606	1,680	2,184	3,864	34,638	17.3%	7.67%	3.33%
2Q, Yr3	213,912	1,070	10,344	336,345	201,807	1,682	2,186	3,868	38,506	19.3%	7.67%	3.33%
3Q, Yr3	215,517	1,078	11,422	336,682	202,009	1,683	2,188	3,872	42,378	21.2%	7.67%	3.33%
4Q, Yr3	217,133	1,086	12,508	337,018	202,211	1,685	2,191	3,876	46,254	23.1%	7.67%	3.33%
1Q, Yr4	218,761	1,094	13,601	337,355	202,413	1,687	2,193	3,880	50,133	25.1%	7.67%	3.33%
2Q, Yr4	220,402	1,102	14,703	337,693	202,616	1,688	2,195	3,883	54,017	27.0%	7.67%	3.33%
3Q, Yr4	222,055	1,110	15,814	338,030	202,818	1,690	2,197	3,887	57,904	29.0%	7.67%	3.33%
4Q, Yr4	223,721	1,119	16,932	338,368	203,021	1,692	2,199	3,891	61,795	30.9%	7.67%	3.33%
1Q, Yr5	225,398	1,127	18,059	338,707	203,224	1,694	2,202	3,895	65,691	32.8%	7.67%	3.33%
2Q, Yr5	227,089	1,135	19,195	339,046	203,427	1,695	2,204	3,899	69,590	34.8%	7.67%	3.33%
3Q, Yr5	228,792	1,144	20,339	339,385	203,631	1,697	2,206	3,903	73,493	36.7%	7.67%	3.33%
4Q, Yr5	230,508	1,153	21,491	339,724	203,834	1,699	2,208	3,907	77,399	38.7%	7.67%	3.33%
1Q, Yr6	232,237	1,161	22,652	340,064	204,038	1,700	2,210	3,911	81,310	40.7%	7.67%	3.33%
2Q, Yr6	233,979	1,170	23,822	340,404	204,242	1,702	2,213	3,915	85,225	42.6%	7.67%	3.33%
3Q, Yr6	235,733	1,179	25,001	340,744	204,447	1,704	2,215	3,919	89,143	44.6%	7.67%	3.33%
4Q, Yr6	237,501	1,188	26,188	341,085	204,651	1,705	2,217	3,922	93,066	46.5%	7.67%	3.33%
1Q, Yr7	239,283	1,196	27,385	341,426	204,856	1,707	2,219	3,926	96,992	48.5%	7.67%	3.33%
2Q, Yr7	241,077	1,205	28,590	341,767	205,060	1,709	2,221	3,930	100,923	50.5%	7.67%	3.33%
3Q, Yr7	242,885	1,214	29,805	342,109	205,266	1,711	2,224	3,934	104,857	52.4%	7.67%	3.33%
4Q, Yr7	244,707	1,224	31,028	342,451	205,471	1,712	2,226	3,938	108,795	54.4%	7.67%	3.33%
1Q, Yr8	246,542	1,233	32,261	342,794	205,676	1,714	2,228	3,942	112,737	56.4%	7.67%	3.33%
2Q, Yr8	248,391	1,242	33,503	343,137	205,882	1,716	2,230	3,946	116,683	58.3%	7.67%	3.33%
3Q, Yr8	250,254	1,251	34,754	343,480	206,088	1,717	2,233	3,950	120,633	60.3%	7.67%	3.33%
4Q, Yr8	252,131	1,261	36,015	343,823	206,294	1,719	2,235	3,954	124,587	62.3%	7.67%	3.33%
1Q, Yr9	254,022	1,270	37,285	344,167	206,500	1,721	2,237	3,958	128,545	64.3%	7.67%	3.33%
2Q, Yr9	255,927	1,280	38,565	344,511	206,707	1,723	2,239	3,962	132,507	66.3%	7.67%	3.33%
3Q, Yr9	257,847	1,289	39,854	344,856	206,913	1,724	2,242	3,966	136,473	68.2%	7.67%	3.33%
4Q, Yr9	259,781	1,299	41,153	345,201	207,120	1,726	2,244	3,970	140,443	70.2%	7.67%	3.33%
1Q, Yr10	261,729	1,309	42,461	345,546	207,327	1,728	2,246	3,974	144,416	72.2%	7.67%	3.33%
2Q, Yr10	263,692	1,318	43,780	345,891	207,535	1,729	2,248	3,978	148,394	74.2%	7.67%	3.33%
3Q, Yr10	265,670	1,328	45,108	346,237	207,742	1,731	2,251	3,982	152,376	76.2%	7.67%	3.33%
4Q, Yr10	267,662	1,338	46,446	346,583	207,950	1,733	2,253	3,986	156,362	78.2%	7.67%	3.33%
					Totals	67,983	88,378					

B & F Equity=Portfolio appreciation columns E and B, reduced by previous period's total annual fees and costs, C or I respectively

Comparison Table; Wrap-Fees Accounts vs. Commission-Based Accounts

Initial Investment	200,000		Appreciation Rate	10.00%	Wrap-Fee 2.00%
Turnover	60%	30% *Buys & Sells*			
Commission Rate	1.25%				
Periods/ yr	4				

	Wrap-Fee Account			Commission Account				Deltas	
A	B	C	D	E	F	G	H	I	J
Period	Account Value	Wrap-Fee	Cum Wrap-Fee	Account Value	T/O per Period	Comm'n	Cum Comm'n	Wrap-Fee excess over comm'ns	Comm'n acct equity excess over wrap-fee equity
1Q, Yr1	200,000	1,000	1,000	200,000	15.0%	375	375	625	-
2Q, Yr1	204,000	1,020	2,020	204,616	15.0%	384	759	1,261	616
3Q, Yr1	208,080	1,040	3,060	209,338	15.0%	393	1,151	1,909	1,258
4Q, Yr1	212,242	1,061	4,122	214,169	15.0%	402	1,553	2,569	1,927
1Q, Yr2	216,486	1,082	5,204	219,112	15.0%	411	1,964	3,240	2,625
2Q, Yr2	220,816	1,104	6,308	224,168	15.0%	420	2,384	3,924	3,352
3Q, Yr2	225,232	1,126	7,434	229,342	15.0%	430	2,814	4,620	4,109
4Q, Yr2	229,737	1,149	8,583	234,634	15.0%	440	3,254	5,329	4,897
1Q, Yr3	234,332	1,172	9,755	240,049	15.0%	450	3,704	6,051	5,717
2Q, Yr3	239,019	1,195	10,950	245,589	15.0%	460	4,164	6,785	6,571
3Q, Yr3	243,799	1,219	12,169	251,257	15.0%	471	4,636	7,533	7,458
4Q, Yr3	248,675	1,243	13,412	257,055	15.0%	482	5,117	8,295	8,381
1Q, Yr4	253,648	1,268	14,680	262,988	15.0%	493	5,611	9,070	9,339
2Q, Yr4	258,721	1,294	15,974	269,057	15.0%	504	6,115	9,859	10,336
3Q, Yr4	263,896	1,319	17,293	275,266	15.0%	516	6,631	10,662	11,371
4Q, Yr4	269,174	1,346	18,639	281,619	15.0%	528	7,159	11,480	12,445
1Q, Yr5	274,557	1,373	20,012	288,118	15.0%	540	7,699	12,313	13,561
2Q, Yr5	280,048	1,400	21,412	294,767	15.0%	553	8,252	13,160	14,719
3Q, Yr5	285,649	1,428	22,841	301,570	15.0%	565	8,818	14,023	15,921
4Q, Yr5	291,362	1,457	24,297	308,530	15.0%	578	9,396	14,901	17,168
1Q, Yr6	297,189	1,486	25,783	315,650	15.0%	592	9,988	15,795	18,461
2Q, Yr6	303,133	1,516	27,299	322,935	15.0%	606	10,593	16,706	19,801
3Q, Yr6	309,196	1,546	28,845	330,387	15.0%	619	11,213	17,632	21,192
4Q, Yr6	315,380	1,577	30,422	338,012	15.0%	634	11,847	18,575	22,632
1Q, Yr7	321,687	1,608	32,030	345,813	15.0%	648	12,495	19,535	24,125
2Q, Yr7	328,121	1,641	33,671	353,794	15.0%	663	13,158	20,512	25,672
3Q, Yr7	334,684	1,673	35,344	361,958	15.0%	679	13,837	21,507	27,275
4Q, Yr7	341,377	1,707	37,051	370,312	15.0%	694	14,531	22,520	28,935
1Q, Yr8	348,205	1,741	38,792	378,858	15.0%	710	15,242	23,550	30,653
2Q, Yr8	355,169	1,776	40,568	387,601	15.0%	727	15,969	24,600	32,432
3Q, Yr8	362,272	1,811	42,379	396,546	15.0%	744	16,712	25,667	34,274
4Q, Yr8	369,518	1,848	44,227	405,698	15.0%	761	17,473	26,754	36,180
1Q, Yr9	376,908	1,885	46,112	415,061	15.0%	778	18,251	27,861	38,153
2Q, Yr9	384,446	1,922	48,034	424,639	15.0%	796	19,047	28,987	40,193
3Q, Yr9	392,135	1,961	49,994	434,439	15.0%	815	19,862	30,133	42,304
4Q, Yr9	399,978	2,000	51,994	444,465	15.0%	833	20,695	31,299	44,487
1Q, Yr10	407,977	2,040	54,034	454,723	15.0%	853	21,548	32,486	46,745
2Q, Yr10	416,137	2,081	56,115	465,217	15.0%	872	22,420	33,695	49,080
3Q, Yr10	424,460	2,122	58,237	475,953	15.0%	892	23,312	34,925	51,494
4Q, Yr10	432,949	2,165	60,402	486,937	15.0%	913	24,225	36,177	53,988

F= % of portfolio turnover/period

G=Commissions on the total of buy and sell trades as a % of account equity

I = D - H

J = E - B

TABLE 4

Impact Table: Effect of Margin in Wrap-Fees Account

Initial Investment	200,000	Average Equity %	60%	Appreciation Rate	10.00%	Wrap-Fee	2.00%
Commission Rate	1.25%	Margin %	40%				
Periods/ yr	4	Margin Interest rate	6.50%				

	Cash Wrap-Fee			Margin Wrap-Fee Account						% comparison		
A	B	C	D	E	F	G	H	I	J	K	L	M
Period	Account Equity	Wrap-Fee	Cum Wrap-Fee	Portfolio Value	Equity	Wrap-Fee	Margin Interest	Total Annual Account Cost	Cum. Costs	Cum Cost as % of Investment	Annual Equity Hurdle Rate	Margin Wrap -Fee as % of Equity
1Q, Yr1	200,000	1,000	1,000	333,333	200,000	1,667	2,167	3,833	3,833	1.9%	7.67%	3.33%
2Q, Yr1	204,000	1,020	2,020	337,833	202,700	1,689	2,196	3,885	7,718	3.9%	7.67%	3.33%
3Q, Yr1	208,080	1,040	3,060	342,394	205,436	1,712	2,226	3,938	11,656	5.8%	7.67%	3.33%
4Q, Yr1	212,242	1,061	4,122	347,016	208,210	1,735	2,256	3,991	15,647	7.8%	7.67%	3.33%
1Q, Yr2	216,486	1,082	5,204	351,701	211,021	1,759	2,286	4,045	19,691	9.8%	7.67%	3.33%
2Q, Yr2	220,816	1,104	6,308	356,449	213,869	1,782	2,317	4,099	23,790	11.9%	7.67%	3.33%
3Q, Yr2	225,232	1,126	7,434	361,261	216,757	1,806	2,348	4,155	27,945	14.0%	7.67%	3.33%
4Q, Yr2	229,737	1,149	8,583	366,138	219,683	1,831	2,380	4,211	32,155	16.1%	7.67%	3.33%
1Q, Yr3	234,332	1,172	9,755	371,081	222,649	1,855	2,412	4,267	36,423	18.2%	7.67%	3.33%
2Q, Yr3	239,019	1,195	10,950	376,091	225,654	1,880	2,445	4,325	40,748	20.4%	7.67%	3.33%
3Q, Yr3	243,799	1,219	12,169	381,168	228,701	1,906	2,478	4,383	45,131	22.6%	7.67%	3.33%
4Q, Yr3	248,675	1,243	13,412	386,314	231,788	1,932	2,511	4,443	49,574	24.8%	7.67%	3.33%
1Q, Yr4	253,648	1,268	14,680	391,529	234,917	1,958	2,545	4,503	54,077	27.0%	7.67%	3.33%
2Q, Yr4	258,721	1,294	15,974	396,815	238,089	1,984	2,579	4,563	58,640	29.3%	7.67%	3.33%
3Q, Yr4	263,896	1,319	17,293	402,171	241,303	2,011	2,614	4,625	63,265	31.6%	7.67%	3.33%
4Q, Yr4	269,174	1,346	18,639	407,601	244,560	2,038	2,649	4,687	67,952	34.0%	7.67%	3.33%
1Q, Yr5	274,557	1,373	20,012	413,103	247,862	2,066	2,685	4,751	72,703	36.4%	7.67%	3.33%
2Q, Yr5	280,048	1,400	21,412	418,680	251,208	2,093	2,721	4,815	77,518	38.8%	7.67%	3.33%
3Q, Yr5	285,649	1,428	22,841	424,333	254,600	2,122	2,758	4,880	82,398	41.2%	7.67%	3.33%
4Q, Yr5	291,362	1,457	24,297	430,061	258,037	2,150	2,795	4,946	87,343	43.7%	7.67%	3.33%
1Q, Yr6	297,189	1,486	25,783	435,867	261,520	2,179	2,833	5,012	92,356	46.2%	7.67%	3.33%
2Q, Yr6	303,133	1,516	27,299	441,751	265,051	2,209	2,871	5,080	97,436	48.7%	7.67%	3.33%
3Q, Yr6	309,196	1,546	28,845	447,715	268,629	2,239	2,910	5,149	102,585	51.3%	7.67%	3.33%
4Q, Yr6	315,380	1,577	30,422	453,759	272,255	2,269	2,949	5,218	107,803	53.9%	7.67%	3.33%
1Q, Yr7	321,687	1,608	32,030	459,885	275,931	2,299	2,989	5,289	113,092	56.5%	7.67%	3.33%
2Q, Yr7	328,121	1,641	33,671	466,093	279,656	2,330	3,030	5,360	118,452	59.2%	7.67%	3.33%
3Q, Yr7	334,684	1,673	35,344	472,385	283,431	2,362	3,071	5,432	123,884	61.9%	7.67%	3.33%
4Q, Yr7	341,377	1,707	37,051	478,762	287,257	2,394	3,112	5,506	129,390	64.7%	7.67%	3.33%
1Q, Yr8	348,205	1,741	38,792	485,226	291,135	2,426	3,154	5,580	134,970	67.5%	7.67%	3.33%
2Q, Yr8	355,169	1,776	40,568	491,776	295,066	2,459	3,197	5,655	140,625	70.3%	7.67%	3.33%
3Q, Yr8	362,272	1,811	42,379	498,415	299,049	2,492	3,240	5,732	146,357	73.2%	7.67%	3.33%
4Q, Yr8	369,518	1,848	44,227	505,144	303,086	2,526	3,283	5,809	152,166	76.1%	7.67%	3.33%
1Q, Yr9	376,908	1,885	46,112	511,963	307,178	2,560	3,328	5,888	158,054	79.0%	7.67%	3.33%
2Q, Yr9	384,446	1,922	48,034	518,875	311,325	2,594	3,373	5,967	164,021	82.0%	7.67%	3.33%
3Q, Yr9	392,135	1,961	49,994	525,880	315,528	2,629	3,418	6,048	170,069	85.0%	7.67%	3.33%
4Q, Yr9	399,978	2,000	51,994	532,979	319,787	2,665	3,464	6,129	176,198	88.1%	7.67%	3.33%
1Q, Yr10	407,977	2,040	54,034	540,174	324,105	2,701	3,511	6,212	182,410	91.2%	7.67%	3.33%
2Q, Yr10	416,137	2,081	56,115	547,467	328,480	2,737	3,559	6,296	188,706	94.4%	7.67%	3.33%
3Q, Yr10	424,460	2,122	58,237	554,857	332,914	2,774	3,607	6,381	195,087	97.5%	7.67%	3.33%
4Q, Yr10	432,949	2,165	60,402	562,348	337,409	2,812	3,655	6,467	201,554	100.8%	7.67%	3.33%
					Totals	87,632	113,922					

B & F Equity=Portfolio appreciation columns E and B, reduced by previous period's total annual fees and costs, C or I respectively

Comparison Table; Wrap-Fees Accounts vs. Commission-Based Accounts

Initial Investment	200,000		Appreciation Rate **5.00%** Wrap-Fee **1.50%**
Turnover	60%	*30% Buys & Sells*	
Commission Rate	1.25%		
Periods/ yr	4		

	Wrap-Fee Account			Commission Account				Deltas	
A	B	C	D	E	F	G	H	I	J
Period	Account Value	Wrap-Fee	Cum Wrap-Fee	Account Value	T/O per Period	Comm'n	Cum Comm'n	Wrap-Fee excess over comm'ns	Comm'n acct equity excess over wrap-fee equity
1Q, Yr1	200,000	750	750	200,000	15.0%	375	375	375	-
2Q, Yr1	201,750	757	1,507	202,120	15.0%	379	754	753	370
3Q, Yr1	203,515	763	2,270	204,263	15.0%	383	1,137	1,133	748
4Q, Yr1	205,296	770	3,040	206,429	15.0%	387	1,524	1,516	1,133
1Q, Yr2	207,092	777	3,816	208,617	15.0%	391	1,915	1,901	1,525
2Q, Yr2	208,904	783	4,600	210,829	15.0%	395	2,310	2,289	1,924
3Q, Yr2	210,732	790	5,390	213,064	15.0%	399	2,710	2,680	2,331
4Q, Yr2	212,576	797	6,187	215,323	15.0%	404	3,114	3,073	2,746
1Q, Yr3	214,436	804	6,991	217,605	15.0%	408	3,522	3,469	3,169
2Q, Yr3	216,313	811	7,802	219,912	15.0%	412	3,934	3,868	3,600
3Q, Yr3	218,205	818	8,621	222,244	15.0%	417	4,351	4,270	4,038
4Q, Yr3	220,115	825	9,446	224,600	15.0%	421	4,772	4,674	4,485
1Q, Yr4	222,041	833	10,279	226,981	15.0%	426	5,197	5,081	4,940
2Q, Yr4	223,984	840	11,119	229,387	15.0%	430	5,628	5,491	5,404
3Q, Yr4	225,943	847	11,966	231,819	15.0%	435	6,062	5,904	5,876
4Q, Yr4	227,920	855	12,821	234,277	15.0%	439	6,502	6,319	6,356
1Q, Yr5	229,915	862	13,683	236,761	15.0%	444	6,945	6,737	6,846
2Q, Yr5	231,926	870	14,552	239,271	15.0%	449	7,394	7,158	7,344
3Q, Yr5	233,956	877	15,430	241,807	15.0%	453	7,847	7,582	7,851
4Q, Yr5	236,003	885	16,315	244,371	15.0%	458	8,306	8,009	8,368
1Q, Yr6	238,068	893	17,208	246,962	15.0%	463	8,769	8,439	8,894
2Q, Yr6	240,151	901	18,108	249,580	15.0%	468	9,237	8,871	9,429
3Q, Yr6	242,252	908	19,017	252,226	15.0%	473	9,710	9,307	9,973
4Q, Yr6	244,372	916	19,933	254,900	15.0%	478	10,188	9,745	10,528
1Q, Yr7	246,510	924	20,857	257,602	15.0%	483	10,671	10,187	11,092
2Q, Yr7	248,667	933	21,790	260,333	15.0%	488	11,159	10,631	11,666
3Q, Yr7	250,843	941	22,731	263,093	15.0%	493	11,652	11,079	12,250
4Q, Yr7	253,038	949	23,679	265,882	15.0%	499	12,150	11,529	12,844
1Q, Yr8	255,252	957	24,637	268,701	15.0%	504	12,654	11,982	13,449
2Q, Yr8	257,486	966	25,602	271,549	15.0%	509	13,163	12,439	14,064
3Q, Yr8	259,739	974	26,576	274,428	15.0%	515	13,678	12,898	14,690
4Q, Yr8	262,011	983	27,559	277,338	15.0%	520	14,198	13,361	15,326
1Q, Yr9	264,304	991	28,550	280,278	15.0%	526	14,724	13,826	15,974
2Q, Yr9	266,617	1,000	29,550	283,249	15.0%	531	15,255	14,295	16,633
3Q, Yr9	268,949	1,009	30,558	286,252	15.0%	537	15,791	14,767	17,303
4Q, Yr9	271,303	1,017	31,576	289,287	15.0%	542	16,334	15,242	17,984
1Q, Yr10	273,677	1,026	32,602	292,354	15.0%	548	16,882	15,720	18,677
2Q, Yr10	276,071	1,035	33,637	295,453	15.0%	554	17,436	16,201	19,382
3Q, Yr10	278,487	1,044	34,682	298,585	15.0%	560	17,996	16,686	20,099
4Q, Yr10	280,924	1,053	35,735	301,751	15.0%	566	18,562	17,174	20,827

F= % of portfolio turnover/period — I = D - H

G=Commissions on the total of buy and sell trades as a % of account equity — J = E - B

TABLE 6

Impact Table: Effect of Margin in Wrap-Fees Account

Initial Investment	200,000	Average Equity %	60%	Appreciation Rate	5.00%	Wrap-Fee	1.50%
Commission Rate	1.25%	Margin %	40%				
Periods/ yr	4	Margin Interest rate	6.50%				

	Cash Wrap-Fee			Margin Wrap-Fee Account						% comparison		
A	B	C	D	E	F	G	H	I	J	K	L	M
Period	Account Equity	Wrap-Fee	Cum Wrap-Fee	Portfolio Value	Equity	Wrap-Fee	Margin Interest	Total Annual Account Cost	Cum. Costs	Cum Cost as % of Investment	Annual Equity Hurdle Rate	Margin Wrap -Fee as % of Equity
1Q, Yr1	200,000	750	750	333,333	200,000	1,250	2,167	3,417	3,417	1.7%	6.83%	2.50%
2Q, Yr1	201,750	757	1,507	334,083	200,450	1,253	2,172	3,424	6,841	3.4%	6.83%	2.50%
3Q, Yr1	203,515	763	2,270	334,835	200,901	1,256	2,176	3,432	10,273	5.1%	6.83%	2.50%
4Q, Yr1	205,296	770	3,040	335,588	201,353	1,258	2,181	3,440	13,713	6.9%	6.83%	2.50%
1Q, Yr2	207,092	777	3,816	336,343	201,806	1,261	2,186	3,448	17,160	8.6%	6.83%	2.50%
2Q, Yr2	208,904	783	4,600	337,100	202,260	1,264	2,191	3,455	20,616	10.3%	6.83%	2.50%
3Q, Yr2	210,732	790	5,390	337,859	202,715	1,267	2,196	3,463	24,079	12.0%	6.83%	2.50%
4Q, Yr2	212,576	797	6,187	338,619	203,171	1,270	2,201	3,471	27,550	13.8%	6.83%	2.50%
1Q, Yr3	214,436	804	6,991	339,381	203,628	1,273	2,206	3,479	31,028	15.5%	6.83%	2.50%
2Q, Yr3	216,313	811	7,802	340,144	204,087	1,276	2,211	3,486	34,515	17.3%	6.83%	2.50%
3Q, Yr3	218,205	818	8,621	340,910	204,546	1,278	2,216	3,494	38,009	19.0%	6.83%	2.50%
4Q, Yr3	220,115	825	9,446	341,677	205,006	1,281	2,221	3,502	41,511	20.8%	6.83%	2.50%
1Q, Yr4	222,041	833	10,279	342,446	205,467	1,284	2,226	3,510	45,021	22.5%	6.83%	2.50%
2Q, Yr4	223,984	840	11,119	343,216	205,930	1,287	2,231	3,518	48,539	24.3%	6.83%	2.50%
3Q, Yr4	225,943	847	11,966	343,988	206,393	1,290	2,236	3,526	52,065	26.0%	6.83%	2.50%
4Q, Yr4	227,920	855	12,821	344,762	206,857	1,293	2,241	3,534	55,599	27.8%	6.83%	2.50%
1Q, Yr5	229,915	862	13,683	345,538	207,323	1,296	2,246	3,542	59,141	29.6%	6.83%	2.50%
2Q, Yr5	231,926	870	14,552	346,315	207,789	1,299	2,251	3,550	62,690	31.3%	6.83%	2.50%
3Q, Yr5	233,956	877	15,430	347,095	208,257	1,302	2,256	3,558	66,248	33.1%	6.83%	2.50%
4Q, Yr5	236,003	885	16,315	347,876	208,725	1,305	2,261	3,566	69,814	34.9%	6.83%	2.50%
1Q, Yr6	238,068	893	17,208	348,658	209,195	1,307	2,266	3,574	73,388	36.7%	6.83%	2.50%
2Q, Yr6	240,151	901	18,108	349,443	209,666	1,310	2,271	3,582	76,969	38.5%	6.83%	2.50%
3Q, Yr6	242,252	908	19,017	350,229	210,137	1,313	2,276	3,590	80,559	40.3%	6.83%	2.50%
4Q, Yr6	244,372	916	19,933	351,017	210,610	1,316	2,282	3,598	84,157	42.1%	6.83%	2.50%
1Q, Yr7	246,510	924	20,857	351,807	211,084	1,319	2,287	3,606	87,763	43.9%	6.83%	2.50%
2Q, Yr7	248,667	933	21,790	352,598	211,559	1,322	2,292	3,614	91,377	45.7%	6.83%	2.50%
3Q, Yr7	250,843	941	22,731	353,392	212,035	1,325	2,297	3,622	95,000	47.5%	6.83%	2.50%
4Q, Yr7	253,038	949	23,679	354,187	212,512	1,328	2,302	3,630	98,630	49.3%	6.83%	2.50%
1Q, Yr8	255,252	957	24,637	354,984	212,990	1,331	2,307	3,639	102,269	51.1%	6.83%	2.50%
2Q, Yr8	257,486	966	25,602	355,783	213,470	1,334	2,313	3,647	105,915	53.0%	6.83%	2.50%
3Q, Yr8	259,739	974	26,576	356,583	213,950	1,337	2,318	3,655	109,570	54.8%	6.83%	2.50%
4Q, Yr8	262,011	983	27,559	357,385	214,431	1,340	2,323	3,663	113,234	56.6%	6.83%	2.50%
1Q, Yr9	264,304	991	28,550	358,189	214,914	1,343	2,328	3,671	116,905	58.5%	6.83%	2.50%
2Q, Yr9	266,617	1,000	29,550	358,995	215,397	1,346	2,333	3,680	120,585	60.3%	6.83%	2.50%
3Q, Yr9	268,949	1,009	30,558	359,803	215,882	1,349	2,339	3,688	124,273	62.1%	6.83%	2.50%
4Q, Yr9	271,303	1,017	31,576	360,613	216,368	1,352	2,344	3,696	127,969	64.0%	6.83%	2.50%
1Q, Yr10	273,677	1,026	32,602	361,424	216,854	1,355	2,349	3,705	131,674	65.8%	6.83%	2.50%
2Q, Yr10	276,071	1,035	33,637	362,237	217,342	1,358	2,355	3,713	135,386	67.7%	6.83%	2.50%
3Q, Yr10	278,487	1,044	34,682	363,052	217,831	1,361	2,360	3,721	139,108	69.6%	6.83%	2.50%
4Q, Yr10	280,924	1,053	35,735	363,869	218,322	1,365	2,365	3,730	142,837	71.4%	6.83%	2.50%
					Totals	52,258	90,580					

B & F Equity=Portfolio appreciation columns E and B, reduced by previous period's total annual fees and costs, C or I respectively

Comparison Table; Wrap-Fees Accounts vs. Commission-Based Accounts

Initial Investment 200,000 | Appreciation Rate **10.00%** | Wrap-Fee **1.50%**

Turnover 60% *30% Buys & Sells*

Commission Rate 1.25%

Periods/ yr 4

	Wrap-Fee Account			Commission Account				Deltas	
A	B	C	D	E	F	G	H	I	J
Period	Account Value	Wrap-Fee	Cum Wrap-Fee	Account Value	T/O per Period	Comm'n	Cum Comm'n	Wrap-Fee excess over comm'ns	Comm'n acct equity excess over wrap-fee equity
1Q, Yr1	200,000	750	750	200,000	15.0%	375	375	375	-
2Q, Yr1	204,250	766	1,516	204,616	15.0%	384	759	757	366
3Q, Yr1	208,590	782	2,298	209,338	15.0%	393	1,151	1,147	747
4Q, Yr1	213,023	799	3,097	214,169	15.0%	402	1,553	1,544	1,146
1Q, Yr2	217,550	816	3,913	219,112	15.0%	411	1,964	1,949	1,562
2Q, Yr2	222,173	833	4,746	224,168	15.0%	420	2,384	2,362	1,996
3Q, Yr2	226,894	851	5,597	229,342	15.0%	430	2,814	2,783	2,448
4Q, Yr2	231,715	869	6,466	234,634	15.0%	440	3,254	3,212	2,919
1Q, Yr3	236,639	887	7,353	240,049	15.0%	450	3,704	3,649	3,410
2Q, Yr3	241,668	906	8,259	245,589	15.0%	460	4,164	4,095	3,921
3Q, Yr3	246,803	926	9,185	251,257	15.0%	471	4,636	4,549	4,454
4Q, Yr3	252,048	945	10,130	257,055	15.0%	482	5,117	5,013	5,008
1Q, Yr4	257,404	965	11,095	262,988	15.0%	493	5,611	5,485	5,584
2Q, Yr4	262,874	986	12,081	269,057	15.0%	504	6,115	5,966	6,183
3Q, Yr4	268,460	1,007	13,088	275,266	15.0%	516	6,631	6,457	6,807
4Q, Yr4	274,164	1,028	14,116	281,619	15.0%	528	7,159	6,957	7,455
1Q, Yr5	279,990	1,050	15,166	288,118	15.0%	540	7,699	7,466	8,128
2Q, Yr5	285,940	1,072	16,238	294,767	15.0%	553	8,252	7,986	8,827
3Q, Yr5	292,016	1,095	17,333	301,570	15.0%	565	8,818	8,516	9,554
4Q, Yr5	298,222	1,118	18,452	308,530	15.0%	578	9,396	9,055	10,308
1Q, Yr6	304,559	1,142	19,594	315,650	15.0%	592	9,988	9,606	11,091
2Q, Yr6	311,031	1,166	20,760	322,935	15.0%	606	10,593	10,167	11,904
3Q, Yr6	317,640	1,191	21,951	330,387	15.0%	619	11,213	10,738	12,747
4Q, Yr6	324,390	1,216	23,168	338,012	15.0%	634	11,847	11,321	13,622
1Q, Yr7	331,283	1,242	24,410	345,813	15.0%	648	12,495	11,915	14,529
2Q, Yr7	338,323	1,269	25,679	353,794	15.0%	663	13,158	12,520	15,470
3Q, Yr7	345,513	1,296	26,974	361,958	15.0%	679	13,837	13,137	16,446
4Q, Yr7	352,855	1,323	28,298	370,312	15.0%	694	14,531	13,766	17,457
1Q, Yr8	360,353	1,351	29,649	378,858	15.0%	710	15,242	14,407	18,505
2Q, Yr8	368,010	1,380	31,029	387,601	15.0%	727	15,969	15,060	19,591
3Q, Yr8	375,831	1,409	32,438	396,546	15.0%	744	16,712	15,726	20,716
4Q, Yr8	383,817	1,439	33,878	405,698	15.0%	761	17,473	16,405	21,881
1Q, Yr9	391,973	1,470	35,347	415,061	15.0%	778	18,251	17,096	23,088
2Q, Yr9	400,302	1,501	36,849	424,639	15.0%	796	19,047	17,801	24,337
3Q, Yr9	408,809	1,533	38,382	434,439	15.0%	815	19,862	18,520	25,630
4Q, Yr9	417,496	1,566	39,947	444,465	15.0%	833	20,695	19,252	26,969
1Q, Yr10	426,368	1,599	41,546	454,723	15.0%	853	21,548	19,998	28,355
2Q, Yr10	435,428	1,633	43,179	465,217	15.0%	872	22,420	20,759	29,789
3Q, Yr10	444,681	1,668	44,847	475,953	15.0%	892	23,312	21,534	31,272
4Q, Yr10	454,131	1,703	46,550	486,937	15.0%	913	24,225	22,324	32,807

F= % of portfolio turnover/period

G=Commissions on the total of buy and sell trades as a % of account equity

I = D - H

J = E - B

TABLE 8

Impact Table: Effect of Margin in Wrap-Fees Account

Initial Investment	200,000	Average Equity %	60%	Appreciation Rate	10.00%	Wrap-Fee	1.50%
Commission Rate	1.25%	Margin %	40%				
Periods/ yr	4	Margin Interest rate	6.50%				

	Cash Wrap-Fee			Margin Wrap-Fee Account						% comparison		
A	B	C	D	E	F	G	H	I	J	K	L	M
Period	Account Equity	Wrap-Fee	Cum Wrap-Fee	Portfolio Value	Equity	Wrap-Fee	Margin Interest	Total Annual Account Cost	Cum. Costs	Cum Cost as % of Investment	Annual Equity Hurdle Rate	Margin Wrap -Fee as % of Equity
1Q, Yr1	200,000	750	750	333,333	200,000	1,250	2,167	3,417	3,417	1.7%	6.83%	2.50%
2Q, Yr1	204,250	766	1,516	338,250	202,950	1,268	2,199	3,467	6,884	3.4%	6.83%	2.50%
3Q, Yr1	208,590	782	2,298	343,239	205,944	1,287	2,231	3,518	10,402	5.2%	6.83%	2.50%
4Q, Yr1	213,023	799	3,097	348,302	208,981	1,306	2,264	3,570	13,972	7.0%	6.83%	2.50%
1Q, Yr2	217,550	816	3,913	353,439	212,064	1,325	2,297	3,623	17,595	8.8%	6.83%	2.50%
2Q, Yr2	222,173	833	4,746	358,653	215,192	1,345	2,331	3,676	21,271	10.6%	6.83%	2.50%
3Q, Yr2	226,894	851	5,597	363,943	218,366	1,365	2,366	3,730	25,001	12.5%	6.83%	2.50%
4Q, Yr2	231,715	869	6,466	369,311	221,587	1,385	2,401	3,785	28,787	14.4%	6.83%	2.50%
1Q, Yr3	236,639	887	7,353	374,758	224,855	1,405	2,436	3,841	32,628	16.3%	6.83%	2.50%
2Q, Yr3	241,668	906	8,259	380,286	228,172	1,426	2,472	3,898	36,526	18.3%	6.83%	2.50%
3Q, Yr3	246,803	926	9,185	385,895	231,537	1,447	2,508	3,955	40,481	20.2%	6.83%	2.50%
4Q, Yr3	252,048	945	10,130	391,587	234,952	1,468	2,545	4,014	44,495	22.2%	6.83%	2.50%
1Q, Yr4	257,404	965	11,095	397,363	238,418	1,490	2,583	4,073	48,568	24.3%	6.83%	2.50%
2Q, Yr4	262,874	986	12,081	403,224	241,934	1,512	2,621	4,133	52,701	26.4%	6.83%	2.50%
3Q, Yr4	268,460	1,007	13,088	409,172	245,503	1,534	2,660	4,194	56,895	28.4%	6.83%	2.50%
4Q, Yr4	274,164	1,028	14,116	415,207	249,124	1,557	2,699	4,256	61,151	30.6%	6.83%	2.50%
1Q, Yr5	279,990	1,050	15,166	421,331	252,799	1,580	2,739	4,319	65,470	32.7%	6.83%	2.50%
2Q, Yr5	285,940	1,072	16,238	427,546	256,528	1,603	2,779	4,382	69,852	34.9%	6.83%	2.50%
3Q, Yr5	292,016	1,095	17,333	433,852	260,311	1,627	2,820	4,447	74,299	37.1%	6.83%	2.50%
4Q, Yr5	298,222	1,118	18,452	440,252	264,151	1,651	2,862	4,513	78,812	39.4%	6.83%	2.50%
1Q, Yr6	304,559	1,142	19,594	446,745	268,047	1,675	2,904	4,579	83,391	41.7%	6.83%	2.50%
2Q, Yr6	311,031	1,166	20,760	453,335	272,001	1,700	2,947	4,647	88,037	44.0%	6.83%	2.50%
3Q, Yr6	317,640	1,191	21,951	460,021	276,013	1,725	2,990	4,715	92,753	46.4%	6.83%	2.50%
4Q, Yr6	324,390	1,216	23,168	466,807	280,084	1,751	3,034	4,785	97,537	48.8%	6.83%	2.50%
1Q, Yr7	331,283	1,242	24,410	473,692	284,215	1,776	3,079	4,855	102,393	51.2%	6.83%	2.50%
2Q, Yr7	338,323	1,269	25,679	480,679	288,407	1,803	3,124	4,927	107,320	53.7%	6.83%	2.50%
3Q, Yr7	345,513	1,296	26,974	487,769	292,661	1,829	3,170	5,000	112,319	56.2%	6.83%	2.50%
4Q, Yr7	352,855	1,323	28,298	494,964	296,978	1,856	3,217	5,073	117,393	58.7%	6.83%	2.50%
1Q, Yr8	360,353	1,351	29,649	502,264	301,359	1,883	3,265	5,148	122,541	61.3%	6.83%	2.50%
2Q, Yr8	368,010	1,380	31,029	509,673	305,804	1,911	3,313	5,224	127,765	63.9%	6.83%	2.50%
3Q, Yr8	375,831	1,409	32,438	517,191	310,314	1,939	3,362	5,301	133,066	66.5%	6.83%	2.50%
4Q, Yr8	383,817	1,439	33,878	524,819	314,891	1,968	3,411	5,379	138,446	69.2%	6.83%	2.50%
1Q, Yr9	391,973	1,470	35,347	532,560	319,536	1,997	3,462	5,459	143,904	72.0%	6.83%	2.50%
2Q, Yr9	400,302	1,501	36,849	540,415	324,249	2,027	3,513	5,539	149,444	74.7%	6.83%	2.50%
3Q, Yr9	408,809	1,533	38,382	548,387	329,032	2,056	3,565	5,621	155,065	77.5%	6.83%	2.50%
4Q, Yr9	417,496	1,566	39,947	556,475	333,885	2,087	3,617	5,704	160,769	80.4%	6.83%	2.50%
1Q, Yr10	426,368	1,599	41,546	564,683	338,810	2,118	3,670	5,788	166,557	83.3%	6.83%	2.50%
2Q, Yr10	435,428	1,633	43,179	573,012	343,807	2,149	3,725	5,873	172,430	86.2%	6.83%	2.50%
3Q, Yr10	444,681	1,668	44,847	581,464	348,879	2,180	3,780	5,960	178,390	89.2%	6.83%	2.50%
4Q, Yr10	454,131	1,703	46,550	590,041	354,025	2,213	3,835	6,048	184,438	92.2%	6.83%	2.50%
						Totals	67,477	116,961				

B & F Equity=Portfolio appreciation columns E and B, reduced by previous period's total annual fees and costs, C or I respectively

Comparison Table; Wrap-Fees Accounts vs. Commission-Based Accounts

Initial Investment	200,000		Appreciation Rate **5.00%**	Wrap-Fee **2.50%**
Turnover	60%	*30% Buys & Sells*		
Commission Rate	1.25%			
Periods/ yr	4			

	Wrap-Fee Account			Commission Account				Deltas	
A	B	C	D	E	F	G	H	I	J
Period	Account Value	Wrap-Fee	Cum Wrap-Fee	Account Value	T/O per Period	Comm'n	Cum Comm'n	Wrap-Fee excess over comm'ns	Comm'n acct equity excess over wrap-fee equity
1Q, Yr1	200,000	1,250	1,250	200,000	15.0%	375	375	875	-
2Q, Yr1	201,250	1,258	2,508	202,120	15.0%	379	754	1,754	870
3Q, Yr1	202,508	1,266	3,773	204,263	15.0%	383	1,137	2,637	1,755
4Q, Yr1	203,773	1,274	5,047	206,429	15.0%	387	1,524	3,523	2,655
1Q, Yr2	205,047	1,282	6,329	208,617	15.0%	391	1,915	4,413	3,570
2Q, Yr2	206,329	1,290	7,618	210,829	15.0%	395	2,310	5,308	4,500
3Q, Yr2	207,618	1,298	8,916	213,064	15.0%	399	2,710	6,206	5,446
4Q, Yr2	208,916	1,306	10,222	215,323	15.0%	404	3,114	7,108	6,407
1Q, Yr3	210,222	1,314	11,535	217,605	15.0%	408	3,522	8,014	7,384
2Q, Yr3	211,535	1,322	12,857	219,912	15.0%	412	3,934	8,923	8,377
3Q, Yr3	212,857	1,330	14,188	222,244	15.0%	417	4,351	9,837	9,386
4Q, Yr3	214,188	1,339	15,527	224,600	15.0%	421	4,772	10,755	10,412
1Q, Yr4	215,527	1,347	16,874	226,981	15.0%	426	5,197	11,676	11,455
2Q, Yr4	216,874	1,355	18,229	229,387	15.0%	430	5,628	12,601	12,514
3Q, Yr4	218,229	1,364	19,593	231,819	15.0%	435	6,062	13,531	13,590
4Q, Yr4	219,593	1,372	20,965	234,277	15.0%	439	6,502	14,464	14,684
1Q, Yr5	220,965	1,381	22,346	236,761	15.0%	444	6,945	15,401	15,795
2Q, Yr5	222,346	1,390	23,736	239,271	15.0%	449	7,394	16,342	16,924
3Q, Yr5	223,736	1,398	25,134	241,807	15.0%	453	7,847	17,287	18,071
4Q, Yr5	225,134	1,407	26,542	244,371	15.0%	458	8,306	18,236	19,236
1Q, Yr6	226,542	1,416	27,957	246,962	15.0%	463	8,769	19,189	20,420
2Q, Yr6	227,957	1,425	29,382	249,580	15.0%	468	9,237	20,146	21,622
3Q, Yr6	229,382	1,434	30,816	252,226	15.0%	473	9,710	21,106	22,843
4Q, Yr6	230,816	1,443	32,258	254,900	15.0%	478	10,188	22,071	24,084
1Q, Yr7	232,258	1,452	33,710	257,602	15.0%	483	10,671	23,039	25,344
2Q, Yr7	233,710	1,461	35,171	260,333	15.0%	488	11,159	24,012	26,623
3Q, Yr7	235,171	1,470	36,641	263,093	15.0%	493	11,652	24,989	27,922
4Q, Yr7	236,641	1,479	38,120	265,882	15.0%	499	12,150	25,969	29,242
1Q, Yr8	238,120	1,488	39,608	268,701	15.0%	504	12,654	26,953	30,581
2Q, Yr8	239,608	1,498	41,105	271,549	15.0%	509	13,163	27,942	31,942
3Q, Yr8	241,105	1,507	42,612	274,428	15.0%	515	13,678	28,934	33,323
4Q, Yr8	242,612	1,516	44,129	277,338	15.0%	520	14,198	29,931	34,725
1Q, Yr9	244,129	1,526	45,654	280,278	15.0%	526	14,724	30,931	36,149
2Q, Yr9	245,654	1,535	47,190	283,249	15.0%	531	15,255	31,935	37,595
3Q, Yr9	247,190	1,545	48,735	286,252	15.0%	537	15,791	32,943	39,062
4Q, Yr9	248,735	1,555	50,289	289,287	15.0%	542	16,334	33,955	40,552
1Q, Yr10	250,289	1,564	51,854	292,354	15.0%	548	16,882	34,972	42,065
2Q, Yr10	251,854	1,574	53,428	295,453	15.0%	554	17,436	35,992	43,600
3Q, Yr10	253,428	1,584	55,012	298,585	15.0%	560	17,996	37,016	45,158
4Q, Yr10	255,012	1,594	56,605	301,751	15.0%	566	18,562	38,044	46,739

F= % of portfolio turnover/period

I = D - H

G=Commissions on the total of buy and sell trades as a % of account equity

J = E - B

TABLE 10

Impact Table: Effect of Margin in Wrap-Fees Account

Initial Investment	200,000	Average Equity %	60%	Appreciation Rate	5.00%	Wrap-Fee	2.50%
Commission Rate	1.25%	Margin %	40%				
Periods/ yr	4	Margin Interest rate	6.50%				

	Cash Wrap-Fee			Margin Wrap-Fee Account						% comparison		
A	B	C	D	E	F	G	H	I	J	K	L	M
Period	Account Equity	Wrap-Fee	Cum Wrap-Fee	Portfolio Value	Equity	Wrap-Fee	Margin Interest	Total Annual Account Cost	Cum. Costs	Cum Cost as % of Investment	Annual Equity Hurdle Rate	Margin Wrap -Fee as % of Equity
1Q, Yr1	200,000	1,250	1,250	333,333	200,000	2,083	2,167	4,250	4,250	2.1%	8.50%	4.17%
2Q, Yr1	201,250	1,258	2,508	333,250	199,950	2,083	2,166	4,249	8,499	4.2%	8.50%	4.17%
3Q, Yr1	202,508	1,266	3,773	333,167	199,900	2,082	2,166	4,248	12,747	6.4%	8.50%	4.17%
4Q, Yr1	203,773	1,274	5,047	333,083	199,850	2,082	2,165	4,247	16,994	8.5%	8.50%	4.17%
1Q, Yr2	205,047	1,282	6,329	333,000	199,800	2,081	2,165	4,246	21,239	10.6%	8.50%	4.17%
2Q, Yr2	206,329	1,290	7,618	332,917	199,750	2,081	2,164	4,245	25,484	12.7%	8.50%	4.17%
3Q, Yr2	207,618	1,298	8,916	332,834	199,700	2,080	2,163	4,244	29,728	14.9%	8.50%	4.17%
4Q, Yr2	208,916	1,306	10,222	332,750	199,650	2,080	2,163	4,243	33,970	17.0%	8.50%	4.17%
1Q, Yr3	210,222	1,314	11,535	332,667	199,600	2,079	2,162	4,242	38,212	19.1%	8.50%	4.17%
2Q, Yr3	211,535	1,322	12,857	332,584	199,550	2,079	2,162	4,240	42,452	21.2%	8.50%	4.17%
3Q, Yr3	212,857	1,330	14,188	332,501	199,501	2,078	2,161	4,239	46,692	23.3%	8.50%	4.17%
4Q, Yr3	214,188	1,339	15,527	332,418	199,451	2,078	2,161	4,238	50,930	25.5%	8.50%	4.17%
1Q, Yr4	215,527	1,347	16,874	332,335	199,401	2,077	2,160	4,237	55,167	27.6%	8.50%	4.17%
2Q, Yr4	216,874	1,355	18,229	332,252	199,351	2,077	2,160	4,236	59,403	29.7%	8.50%	4.17%
3Q, Yr4	218,229	1,364	19,593	332,169	199,301	2,076	2,159	4,235	63,639	31.8%	8.50%	4.17%
4Q, Yr4	219,593	1,372	20,965	332,086	199,251	2,076	2,159	4,234	67,873	33.9%	8.50%	4.17%
1Q, Yr5	220,965	1,381	22,346	332,002	199,201	2,075	2,158	4,233	72,106	36.1%	8.50%	4.17%
2Q, Yr5	222,346	1,390	23,736	331,919	199,152	2,074	2,157	4,232	76,338	38.2%	8.50%	4.17%
3Q, Yr5	223,736	1,398	25,134	331,837	199,102	2,074	2,157	4,231	80,569	40.3%	8.50%	4.17%
4Q, Yr5	225,134	1,407	26,542	331,754	199,052	2,073	2,156	4,230	84,798	42.4%	8.50%	4.17%
1Q, Yr6	226,542	1,416	27,957	331,671	199,002	2,073	2,156	4,229	89,027	44.5%	8.50%	4.17%
2Q, Yr6	227,957	1,425	29,382	331,588	198,953	2,072	2,155	4,228	93,255	46.6%	8.50%	4.17%
3Q, Yr6	229,382	1,434	30,816	331,505	198,903	2,072	2,155	4,227	97,482	48.7%	8.50%	4.17%
4Q, Yr6	230,816	1,443	32,258	331,422	198,853	2,071	2,154	4,226	101,707	50.9%	8.50%	4.17%
1Q, Yr7	232,258	1,452	33,710	331,339	198,803	2,071	2,154	4,225	105,932	53.0%	8.50%	4.17%
2Q, Yr7	233,710	1,461	35,171	331,256	198,754	2,070	2,153	4,224	110,155	55.1%	8.50%	4.17%
3Q, Yr7	235,171	1,470	36,641	331,173	198,704	2,070	2,153	4,222	114,378	57.2%	8.50%	4.17%
4Q, Yr7	236,641	1,479	38,120	331,091	198,654	2,069	2,152	4,221	118,599	59.3%	8.50%	4.17%
1Q, Yr8	238,120	1,488	39,608	331,008	198,605	2,069	2,152	4,220	122,820	61.4%	8.50%	4.17%
2Q, Yr8	239,608	1,498	41,105	330,925	198,555	2,068	2,151	4,219	127,039	63.5%	8.50%	4.17%
3Q, Yr8	241,105	1,507	42,612	330,842	198,505	2,068	2,150	4,218	131,257	65.6%	8.50%	4.17%
4Q, Yr8	242,612	1,516	44,129	330,760	198,456	2,067	2,150	4,217	135,474	67.7%	8.50%	4.17%
1Q, Yr9	244,129	1,526	45,654	330,677	198,406	2,067	2,149	4,216	139,690	69.8%	8.50%	4.17%
2Q, Yr9	245,654	1,535	47,190	330,594	198,357	2,066	2,149	4,215	143,906	72.0%	8.50%	4.17%
3Q, Yr9	247,190	1,545	48,735	330,512	198,307	2,066	2,148	4,214	148,120	74.1%	8.50%	4.17%
4Q, Yr9	248,735	1,555	50,289	330,429	198,257	2,065	2,148	4,213	152,333	76.2%	8.50%	4.17%
1Q, Yr10	250,289	1,564	51,854	330,346	198,208	2,065	2,147	4,212	156,544	78.3%	8.50%	4.17%
2Q, Yr10	251,854	1,574	53,428	330,264	198,158	2,064	2,147	4,211	160,755	80.4%	8.50%	4.17%
3Q, Yr10	253,428	1,584	55,012	330,181	198,109	2,064	2,146	4,210	164,965	82.5%	8.50%	4.17%
4Q, Yr10	255,012	1,594	56,605	330,099	198,059	2,063	2,146	4,209	169,174	84.6%	8.50%	4.17%
					Totals	82,928	86,246					

B & F Equity=Portfolio appreciation columns E and B, reduced by previous period's total annual fees and costs, C or I respectively

Comparison Table; Wrap-Fees Accounts vs. Commission-Based Accounts

Initial Investment	200,000		
Turnover	60%	*30% Buys & Sells*	
Commission Rate	1.25%		
Periods/ yr	4		

Appreciation Rate **10.00%** Wrap-Fee **2.50%**

	Wrap-Fee Account			Commission Account				Deltas	
A	B	C	D	E	F	G	H	I	J
Period	Account Value	Wrap-Fee	Cum Wrap-Fee	Account Value	T/O per Period	Comm'n	Cum Comm'n	Wrap-Fee excess over comm'ns	Comm'n acct equity excess over wrap-fee equity
1Q, Yr1	200,000	1,250	1,250	200,000	15.0%	375	375	875	-
2Q, Yr1	203,750	1,273	2,523	204,616	15.0%	384	759	1,765	866
3Q, Yr1	207,570	1,297	3,821	209,338	15.0%	393	1,151	2,670	1,767
4Q, Yr1	211,462	1,322	5,142	214,169	15.0%	402	1,553	3,590	2,707
1Q, Yr2	215,427	1,346	6,489	219,112	15.0%	411	1,964	4,525	3,684
2Q, Yr2	219,466	1,372	7,860	224,168	15.0%	420	2,384	5,477	4,702
3Q, Yr2	223,581	1,397	9,258	229,342	15.0%	430	2,814	6,444	5,760
4Q, Yr2	227,774	1,424	10,681	234,634	15.0%	440	3,254	7,428	6,861
1Q, Yr3	232,044	1,450	12,132	240,049	15.0%	450	3,704	8,428	8,005
2Q, Yr3	236,395	1,477	13,609	245,589	15.0%	460	4,164	9,445	9,194
3Q, Yr3	240,828	1,505	15,114	251,257	15.0%	471	4,636	10,479	10,429
4Q, Yr3	245,343	1,533	16,648	257,055	15.0%	482	5,117	11,530	11,712
1Q, Yr4	249,943	1,562	18,210	262,988	15.0%	493	5,611	12,599	13,045
2Q, Yr4	254,630	1,591	19,801	269,057	15.0%	504	6,115	13,686	14,427
3Q, Yr4	259,404	1,621	21,423	275,266	15.0%	516	6,631	14,791	15,862
4Q, Yr4	264,268	1,652	23,074	281,619	15.0%	528	7,159	15,915	17,351
1Q, Yr5	269,223	1,683	24,757	288,118	15.0%	540	7,699	17,057	18,895
2Q, Yr5	274,271	1,714	26,471	294,767	15.0%	553	8,252	18,219	20,497
3Q, Yr5	279,413	1,746	28,217	301,570	15.0%	565	8,818	19,400	22,157
4Q, Yr5	284,652	1,779	29,997	308,530	15.0%	578	9,396	20,600	23,877
1Q, Yr6	289,990	1,812	31,809	315,650	15.0%	592	9,988	21,821	25,661
2Q, Yr6	295,427	1,846	33,655	322,935	15.0%	606	10,593	23,062	27,508
3Q, Yr6	300,966	1,881	35,536	330,387	15.0%	619	11,213	24,324	29,421
4Q, Yr6	306,609	1,916	37,453	338,012	15.0%	634	11,847	25,606	31,403
1Q, Yr7	312,358	1,952	39,405	345,813	15.0%	648	12,495	26,910	33,455
2Q, Yr7	318,215	1,989	41,394	353,794	15.0%	663	13,158	28,235	35,579
3Q, Yr7	324,181	2,026	43,420	361,958	15.0%	679	13,837	29,583	37,777
4Q, Yr7	330,260	2,064	45,484	370,312	15.0%	694	14,531	30,953	40,052
1Q, Yr8	336,452	2,103	47,587	378,858	15.0%	710	15,242	32,345	42,406
2Q, Yr8	342,761	2,142	49,729	387,601	15.0%	727	15,969	33,761	44,841
3Q, Yr8	349,187	2,182	51,912	396,546	15.0%	744	16,712	35,199	47,359
4Q, Yr8	355,735	2,223	54,135	405,698	15.0%	761	17,473	36,662	49,963
1Q, Yr9	362,405	2,265	56,400	415,061	15.0%	778	18,251	38,149	52,656
2Q, Yr9	369,200	2,307	58,707	424,639	15.0%	796	19,047	39,660	55,440
3Q, Yr9	376,122	2,351	61,058	434,439	15.0%	815	19,862	41,196	58,317
4Q, Yr9	383,175	2,395	63,453	444,465	15.0%	833	20,695	42,758	61,291
1Q, Yr10	390,359	2,440	65,893	454,723	15.0%	853	21,548	44,345	64,364
2Q, Yr10	397,678	2,485	68,378	465,217	15.0%	872	22,420	45,958	67,539
3Q, Yr10	405,135	2,532	70,910	475,953	15.0%	892	23,312	47,598	70,818
4Q, Yr10	412,731	2,580	73,490	486,937	15.0%	913	24,225	49,264	74,206

F= % of portfolio turnover/period

G=Commissions on the total of buy and sell trades as a % of account equity

I = D - H

J = E - B

TABLE 12

Impact Table: Effect of Margin in Wrap-Fees Account

Initial Investment	200,000	Average Equity %	60%	Appreciation Rate	10.00%	Wrap-Fee	2.50%
Commission Rate	1.25%	Margin %	40%				
Periods/ yr	4	Margin Interest rate	6.50%				

	Cash Wrap-Fee			Margin Wrap-Fee Account						% comparison		
A	B	C	D	E	F	G	H	I	J	K	L	M
Period	Account Equity	Wrap-Fee	Cum Wrap-Fee	Portfolio Value	Equity	Wrap-Fee	Margin Interest	Total Annual Account Cost	Cum. Costs	Cum Cost as % of Investment	Annual Equity Hurdle Rate	Margin Wrap-Fee as % of Equity
1Q, Yr1	200,000	1,250	1,250	333,333	200,000	2,083	2,167	4,250	4,250	2.1%	8.50%	4.17%
2Q, Yr1	203,750	1,273	2,523	337,417	202,450	2,109	2,193	4,302	8,552	4.3%	8.50%	4.17%
3Q, Yr1	207,570	1,297	3,821	341,550	204,930	2,135	2,220	4,355	12,907	6.5%	8.50%	4.17%
4Q, Yr1	211,462	1,322	5,142	345,734	207,440	2,161	2,247	4,408	17,315	8.7%	8.50%	4.17%
1Q, Yr2	215,427	1,346	6,489	349,969	209,982	2,187	2,275	4,462	21,777	10.9%	8.50%	4.17%
2Q, Yr2	219,466	1,372	7,860	354,256	212,554	2,214	2,303	4,517	26,294	13.1%	8.50%	4.17%
3Q, Yr2	223,581	1,397	9,258	358,596	215,158	2,241	2,331	4,572	30,866	15.4%	8.50%	4.17%
4Q, Yr2	227,774	1,424	10,681	362,989	217,793	2,269	2,359	4,628	35,494	17.7%	8.50%	4.17%
1Q, Yr3	232,044	1,450	12,132	367,435	220,461	2,296	2,388	4,685	40,179	20.1%	8.50%	4.17%
2Q, Yr3	236,395	1,477	13,609	371,937	223,162	2,325	2,418	4,742	44,921	22.5%	8.50%	4.17%
3Q, Yr3	240,828	1,505	15,114	376,493	225,896	2,353	2,447	4,800	49,721	24.9%	8.50%	4.17%
4Q, Yr3	245,343	1,533	16,648	381,105	228,663	2,382	2,477	4,859	54,580	27.3%	8.50%	4.17%
1Q, Yr4	249,943	1,562	18,210	385,773	231,464	2,411	2,508	4,919	59,499	29.7%	8.50%	4.17%
2Q, Yr4	254,630	1,591	19,801	390,499	234,299	2,441	2,538	4,979	64,478	32.2%	8.50%	4.17%
3Q, Yr4	259,404	1,621	21,423	395,283	237,170	2,471	2,569	5,040	69,518	34.8%	8.50%	4.17%
4Q, Yr4	264,268	1,652	23,074	400,125	240,075	2,501	2,601	5,102	74,619	37.3%	8.50%	4.17%
1Q, Yr5	269,223	1,683	24,757	405,026	243,016	2,531	2,633	5,164	79,783	39.9%	8.50%	4.17%
2Q, Yr5	274,271	1,714	26,471	409,988	245,993	2,562	2,665	5,227	85,011	42.5%	8.50%	4.17%
3Q, Yr5	279,413	1,746	28,217	415,010	249,006	2,594	2,698	5,291	90,302	45.2%	8.50%	4.17%
4Q, Yr5	284,652	1,779	29,997	420,094	252,057	2,626	2,731	5,356	95,658	47.8%	8.50%	4.17%
1Q, Yr6	289,990	1,812	31,809	425,240	255,144	2,658	2,764	5,422	101,080	50.5%	8.50%	4.17%
2Q, Yr6	295,427	1,846	33,655	430,450	258,270	2,690	2,798	5,488	106,568	53.3%	8.50%	4.17%
3Q, Yr6	300,966	1,881	35,536	435,723	261,434	2,723	2,832	5,555	112,124	56.1%	8.50%	4.17%
4Q, Yr6	306,609	1,916	37,453	441,060	264,636	2,757	2,867	5,624	117,747	58.9%	8.50%	4.17%
1Q, Yr7	312,358	1,952	39,405	446,463	267,878	2,790	2,902	5,692	123,440	61.7%	8.50%	4.17%
2Q, Yr7	318,215	1,989	41,394	451,932	271,159	2,825	2,938	5,762	129,202	64.6%	8.50%	4.17%
3Q, Yr7	324,181	2,026	43,420	457,468	274,481	2,859	2,974	5,833	135,035	67.5%	8.50%	4.17%
4Q, Yr7	330,260	2,064	45,484	463,072	277,843	2,894	3,010	5,904	140,939	70.5%	8.50%	4.17%
1Q, Yr8	336,452	2,103	47,587	468,745	281,247	2,930	3,047	5,976	146,915	73.5%	8.50%	4.17%
2Q, Yr8	342,761	2,142	49,729	474,487	284,692	2,966	3,084	6,050	152,965	76.5%	8.50%	4.17%
3Q, Yr8	349,187	2,182	51,912	480,300	288,180	3,002	3,122	6,124	159,089	79.5%	8.50%	4.17%
4Q, Yr8	355,735	2,223	54,135	486,183	291,710	3,039	3,160	6,199	165,288	82.6%	8.50%	4.17%
1Q, Yr9	362,405	2,265	56,400	492,139	295,283	3,076	3,199	6,275	171,562	85.8%	8.50%	4.17%
2Q, Yr9	369,200	2,307	58,707	498,168	298,901	3,114	3,238	6,352	177,914	89.0%	8.50%	4.17%
3Q, Yr9	376,122	2,351	61,058	504,270	302,562	3,152	3,278	6,429	184,344	92.2%	8.50%	4.17%
4Q, Yr9	383,175	2,395	63,453	510,448	306,269	3,190	3,318	6,508	190,852	95.4%	8.50%	4.17%
1Q, Yr10	390,359	2,440	65,893	516,701	310,020	3,229	3,359	6,588	197,440	98.7%	8.50%	4.17%
2Q, Yr10	397,678	2,485	68,378	523,030	313,818	3,269	3,400	6,669	204,108	102.1%	8.50%	4.17%
3Q, Yr10	405,135	2,532	70,910	529,437	317,662	3,309	3,441	6,750	210,859	105.4%	8.50%	4.17%
4Q, Yr10	412,731	2,580	73,490	535,923	321,554	3,350	3,483	6,833	217,692	108.8%	8.50%	4.17%
					Totals	106,712	110,980					

B & F Equity=Portfolio appreciation columns E and B, reduced by previous period's total annual fees and costs, C or I respectively

CPI Table

YEAR	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Ann CPI	4.40%	4.60%	6.10%	3.10%	2.90%	2.70%	2.70%	2.50%	3.30%	1.70%	1.60%
								Ten Year Average			3.12%
$ 100,000											
CPI	**1.90%**	**2.00%**	**2.10%**	**2.20%**	**2.30%**	**2.40%**	**2.50%**	**2.60%**	**2.70%**	**2.80%**	**2.90%**
Yr 1	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Yr 2	101,900	102,000	102,100	102,200	102,300	102,400	102,500	102,600	102,700	102,800	102,900
Yr 3	103,836	104,040	104,244	104,448	104,653	104,858	105,063	105,268	105,473	105,678	105,884
Yr 4	105,809	106,121	106,433	106,746	107,060	107,374	107,689	108,005	108,321	108,637	108,955
Yr 5	107,819	108,243	108,668	109,095	109,522	109,951	110,381	110,813	111,245	111,679	112,114
Yr 6	109,868	110,408	110,950	111,495	112,041	112,590	113,141	113,694	114,249	114,806	115,366
Yr 7	111,955	112,616	113,280	113,948	114,618	115,292	115,969	116,650	117,334	118,021	118,711
Yr 8	114,083	114,869	115,659	116,454	117,254	118,059	118,869	119,683	120,502	121,325	122,154
Yr 9	116,250	117,166	118,088	119,016	119,951	120,893	121,840	122,794	123,755	124,723	125,696
Yr 10	118,459	119,509	120,568	121,635	122,710	123,794	124,886	125,987	127,097	128,215	129,342
Yr 11	120,710	121,899	123,100	124,311	125,533	126,765	128,008	129,263	130,528	131,805	133,093
Yr 12	123,003	124,337	125,685	127,046	128,420	129,807	131,209	132,624	134,052	135,495	136,952
Yr 13	125,340	126,824	128,324	129,841	131,373	132,923	134,489	136,072	137,672	139,289	140,924
Yr 14	127,722	129,361	131,019	132,697	134,395	136,113	137,851	139,610	141,389	143,189	145,011
Yr 15	130,148	131,948	133,771	135,617	137,486	139,380	141,297	143,240	145,207	147,199	149,216
Yr 16	132,621	134,587	136,580	138,600	140,648	142,725	144,830	146,964	149,127	151,320	153,543
Yr 17	135,141	137,279	139,448	141,649	143,883	146,150	148,451	150,785	153,154	155,557	157,996
Yr 18	137,709	140,024	142,376	144,766	147,193	149,658	152,162	154,705	157,289	159,913	162,578
Yr 19	140,325	142,825	145,366	147,950	150,578	153,250	155,966	158,728	161,536	164,390	167,293
Yr 20	142,991	145,681	148,419	151,205	154,041	156,928	159,865	162,855	165,897	168,993	172,144
Yr 21	145,708	148,595	151,536	154,532	157,584	160,694	163,862	167,089	170,376	173,725	177,136
Yr 22	148,477	151,567	154,718	157,932	161,209	164,550	167,958	171,433	174,976	178,589	182,273
Yr 23	151,298	154,598	157,967	161,406	164,916	168,500	172,157	175,890	179,701	183,590	187,559
Yr 24	154,172	157,690	161,284	164,957	168,710	172,544	176,461	180,463	184,553	188,730	192,998
Yr 25	157,102	160,844	164,671	168,586	172,590	176,685	180,873	185,156	189,536	194,015	198,595

U.S. Department of Labor
Bureau of Labor Statistics
Consumer Price Indexes

The Consumer Price Index--Why the Published Averages Don't Always Match An Individual's Inflation Experience

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The Consumer Price Index (CPI) is a measure of the average change in prices paid by urban consumers for a market basket of goods and services. Because the CPI is a statistical average, it may not reflect your experience or that of specific families or individuals, particularly those whose expenditure patterns differ substantially from the "average" urban consumer.

Because it is not practical to obtain prices for all consumer transactions in the United States, the CPI uses a carefully designed set of samples to estimate prices. These samples are the product of accepted statistical procedures to make the CPI representative of the prices paid for all goods and services purchased by urban consumers. Some of these samples include selected:

- Urban areas from all U.S. urban areas,
- Households within urban areas,
- Retail establishments from which these households (consumers) purchased goods and services,
- Specified and unique items--goods and services purchased by these consumers, and
- Housing units from the urban areas for the shelter component of the CPI.

Therefore, the CPI is an average based on many diverse households and not a reflection of any particular household.

While several factors can result in the national CPI being different from *your* price experience, one major factor is how *you* actually spend your money. Estimates of expenditures reported in the Consumer Expenditure Survey for each consumer good or service are used to produce "expenditure weights" for the CPI. These weights give each good or service in the CPI an importance relative to all the other goods and services in the market basket. For example, an increase of 5 percent in housing costs is more important than the same increase for telephone charges, because most consumers spend more for housing than for telephone service. Similarly, if you spend more than the average person on medical care and recreation, and prices rise sharply for these goods and services, the increase in your personal expenditures and personal price index would be larger than the increase for the average consumer. Because the CPI is a comprehensive measure, it contains items that are included in some individuals' buying patterns and excluded from others. For example, if you are a homeowner, you are more likely to buy major appliances such as refrigerators and laundry equipment than a renter would be.

The CPI divides the consumer market basket into eight major groups of goods and services. You can estimate the approximate difference in *your* expenditure pattern by estimating your relative expenditures for major groups of consumer goods and services. You could then compare them to the CPI groups' relative importance data, which are approximately the weights used in CPI estimation. For example, the approximate weights for the eight major groups in the CPI for All Urban Consumers (CPI-U) are listed below under the CPI-U average column. If your expenditure pattern is sharply different from the CPI average, the same price changes for the same expenditure categories would result in different price change measures for the total market basket. An example of a hypothetical expenditure pattern for a consumer with high expenditures for medical care appears in the tabulation that follows.

Expenditure category	Relative Importance CPI-U average (Dec.2001)	Hypothetical individual
Total (all items)	100.0	100.0
Food and beverages	15.7	20.5
Housing	40.9	25.0
Apparel	4.4	4.5
Transportation	17.1	13.5
Medical care	5.8	25.0
Recreation	6.0	4.0
Education and communication	5.8	3.0
Other goods and services	4.3	4.5
Total, all items	100.0	100.0

Let's assume that there is a price increase of 5 percent for food and beverages and a 10 percent increase for medical care costs, with no price changes for the other expenditure categories. This would result in a price index increase in the published CPI of 1.4 percent. However, it would result in an increase of 3.5 percent for the hypothetical individual's price index. The calculations for the national CPI and the hypothetical individual are shown in the following two tabulations.

National CPI-U average

Expenditure category	Relative Importance, CPI-U average (Dec.2001)	Relative price change	New relative expenditure

Food and beverages	15.7	x	1.05	=	16.5
Housing	40.9	x	1.00	=	40.9
Apparel	4.4	x	1.00	=	4.4
Transportation	17.1	x	1.00	=	17.1
Medical care	5.8	x	1.10	=	6.4
Recreation	6.0	x	1.00	=	6.0
Education and communication	5.8	x	1.00	=	5.8
Other goods and services	4.3	x	1.00	=	4.3
Total, all items	100.0				101.4

101.4/100.0 = 1.4 percent increase

Hypothetical individual

Expenditure category	Relative Importance, hypothetical individual		Relative price change		New relative expenditure
Food and beverages	20.5	x	1.05	=	21.5
Housing	25.0	x	1.00	=	25.0
Apparel	4.5	x	1.00	=	4.5
Transportation	13.5	x	1.00	=	13.5
Medical care	25.0	x	1.10	=	27.5
Recreation	4.0	x	1.00	=	4.0
Education and communication	3.0	x	1.00	=	3.0
Other goods and services	4.5	x	1.00	=	4.5
Total, all items	100.0				103.5

103.5/100.0 = 3.5 percent increase

The area in which you live also can affect your price experiences. You should not expect the national or a regional CPI to always mirror your price experiences. It is possible, for example, that sharp price increases in one area are offset by lower prices in other areas, resulting in a more moderate price change published for the Nation or a region.

Another factor in whether you think the CPI reflects your price experience is that most consumers notice price changes in those goods and services purchased frequently. These items, such as food, clothing, and gasoline, have relatively large price swings because of the seasonal influences in supply and demand. Less attention is paid to many items (such as most household appliances) that are purchased infrequently, which often have relatively stable prices.

The CPI is used extensively to adjust incomes, lease payments, retirement benefits, food stamp and school lunch benefits, alimony, and tax brackets. The CPI, because of the many ways in which it is used, affects nearly all Americans. Because the CPI is based on the buying habits of the "average" consumer, it may not be a perfect reflection of your individual price experience. However, the CPI is the most economically feasible method for providing a statistic that is the most useful in all it's applications.

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Last Modified Date: October 16, 2001