



Holistic Approach to Meeting Your Financial Needs

Fee Based Relationship

We want to be on the same side of the table with our clients

There are two basic forms of advisor reimbursement in the financial services industry - commissions or fees. Cyr Financial Inc. is a fee only Registered Investment Advisor. We feel strongly this best suits our clients. This document is designed to help you understand the financial services industry and the reasons we chose the fee-based model.

As this document is being written, the US Department of Labor has proposed industry sweeping changes which would require ALL retirement accounts including IRA's and the like to be managed using the fee based model. Why? The answer is simple... to help investment professionals place their clients' best interests first by reducing conflicts of interest which naturally occur in a commission based model. As you will read, the fee based model has two major advantages. The first is clarity of fees while the second is a convergence of *advisor motivations* with *investor goals*.

Summary:

The nature of the traditional commission-based business in the financial services industry.

- Very rarely do people know or understand how much their advisor is getting paid. Most often this commission is called a front end load. Commission based registered representatives do not have to openly disclose their compensation (or front-end load).
- Clients do not see their advisors compensation on their statement. They have to uncover this information by reading a lengthy prospectus of legalese.
- Human nature takes over and clients are often ignored while their portfolios are never adjusted; becoming stagnant.

This is the nature of the fee-based business in the financial services industry.

- Clients understand how much their advisor is getting paid.

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Cyr Financial Incorporated is a Registered Investment Advisor

- Clients see their advisors compensation directly on their statement. They do not have to uncover this information by reading a lengthy prospectus of legalese.
- Human nature takes over and advisors are incentivized to do what's best for their clients and nothing else.
- Commissions are not charged and therefore clients can make changes to their portfolios at any time.

The remainder of this document explains the difference between commission based and fee based reimbursement by putting you in the shoes of the investment advisor.

First let's look at the traditional commission based model:

Imagine you are commission based salesmen with only 2 products to sell. One product pays you a 5% commission and the other pays you 10% commission. As the salesmen, which product would you prefer to sell? The answer is probably obvious.

Now go one step further. Imagine that the commission you were making (5% or 10%) was not easily determined by your clients. For your customer to find out your compensation, they would have to read through a 150 page document to uncover the amount of commission you made. How many customers would actually take the time to find out this information?

Now go another step further into this commission scenario. Imagine that you as the salesman are only responsible to assess the appropriateness of your product *at the time of sale*. In other words, once the sale is complete you have no further responsibility or obligation to your customer. If your customer's needs change two years after the sale, you have no obligation to assist them. If your customer is not satisfied with the performance of the product you sold them, you would have no obligation to fix or change it. You have made a 10% commission regardless of whether your customer is happy or not.

But the story doesn't end here. As a businessman, you must continue to earn money. Therefore you are always searching for new customers so that you can continue to charge new commissions. You continue this search over and over. You don't have time to call your old customers to see how they're doing. You don't have time to ask them if they're happy with the product or not. In fact, the only thing you have time for is to search for new customers in order to earn more commissions.

However your story now takes yet another dismal turn as you find yourself struggling to find new customers. Your channel of new commissions seems to be running dry. You are concerned about this development until you come up with a grand idea to continue earning commissions... you simply go back to your old customers... the same customers that already paid you a commission once before. You call them up on the phone to catch up with them (remember you've been so busy chasing down new customers that you haven't spoken to the old ones forever). You tell them that the product you once sold them is no longer good. You convince them to sell that initial product and purchase a new one. This works out perfectly for you because you are now able to make another 10% commission from the same person who had already been charged a 10% commission before.

Now put this picture together in your mind. You're selling products based on your financial needs, not your client's needs. Your customer has no idea how much money they are actually paying you. The commission you charged the customer stays in your pocket regardless if your customer is happy or unsatisfied. You are constantly searching for new customers. And when you can't find new customers you gravitate back to previous customers to charge them commission again.

Now let's look at the fee-based model:

Let's continue on with your story. After years of selling products and earning commissions, you realize that you are travelling down a never-ending road. You decide to make a change. Instead of charging commissions, *you decide to charge a fee for your service*. You will no longer receive a nice large upfront chunk of money when you sell products. Instead you will charge an ongoing fee based on the performance of the products you manage.

In this new way of doing business you find yourself on the same side of the table with your customers... *If your products perform well, your fee will increase. Oppositely, if the products do not perform well, your fee will actually go down*. Your fee is paid by your customers on a quarterly basis. They can clearly see this fee – it is not buried in a prospectus. They can decide if your services and your fee are worth it. There are no hidden costs to your customers.

There is one more thing about this fee based business. You are now subject to a fiduciary standard to do what is in your client's best interest.... not only at the time of sale but as long as you have a relationship with your client. You now have a legal and ethical duty to place the interests of your client above your own. You must meet with your client at least once a year to make sure that your customer's products are still appropriate and in their best interest.

What a difference from the days you used to charge commissions. You remember how you were not responsible for your customer's needs after the sale. You remember how you had very little obligation as to their satisfaction or future needs.

And while you are no longer earning a large commission upfront, you begin to realize the financial benefits of this model. As long as your clients are happy with the performance of products you are offering, you are earning a respectable fee. All the while your customers are benefiting at the same time. You are now able to exchange different products at any time for your customers and they do not have to pay commission for doing so. Whether your customers need to change products 5 a times a year or 20 times a year, your fee doesn't change. They are not getting charged the commission every time you change their product. Most importantly, you realize that you are no longer in search of new clients... instead all you have to do is take care of the clients you have.

Conclusion:

We believe guidance with our client's best interest at heart is the purest, clearest and best way to provide services in the financial industry. We are proud to be fee-based advisors.

See the following page for a hypothetical example:

Hypothetical Example:

Commission based front-end loads typically range from 3 ½ to 6%. In addition to this front end load, commission based clients typically pay an annual fee of 0.25%, otherwise known as a 12 B-1 fee. Fee-based financial services do not include a front end load. A typical annual fee for this type of business is between 0.75% and 1.5% based on the amount of investment.

Below are two examples... The first reflects a client's portfolio which is performing poorly. The 2nd portfolio is performing well. Notice that the commission based salesman (in blue) makes about the same amount of money regardless if the portfolio does well or not \$6,380 vs \$6,622. Notice that the fee based advisor (orange) earns 20% more by offering a good performing portfolio.

Poor Performing Portfolio						
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Return on Investment	-5.00%	5.00%	-5.00%	-10.00%	-5.00%	
Investment (Beg of Yr)	\$ 100,000	\$ 89,500	\$ 93,751	\$ 88,829	\$ 79,724	
Return on Investment	\$ (5,000)	\$ 4,475	\$ (4,688)	\$ (8,883)	\$ (3,986)	
Advisor Commission	\$ (5,500)	\$ (224)	\$ (234)	\$ (222)	\$ (199)	\$ (6,380)
Investment (End of Yr)	\$ 89,500	\$ 93,751	\$ 88,829	\$ 79,724	\$ 75,539	\$ 75,539
Advisor's Commission	5.30%	0.25%	0.25%	0.25%	0.25%	
Investment (Beg of Yr)	\$ 100,000	\$ 94,000	\$ 97,760	\$ 91,891	\$ 81,786	
Return on Investment	\$ (5,000)	\$ 4,700	\$ (4,888)	\$ (9,189)	\$ (4,080)	
Advisor Fee	\$ (1,000)	\$ (940)	\$ (978)	\$ (919)	\$ (818)	\$ (4,654)
Investment (End of Yr)	\$ 94,000	\$ 97,760	\$ 91,894	\$ 81,786	\$ 76,879	\$ 76,879
Advisor's Fee	1.00%	1.00%	1.00%	1.00%	1.00%	

Good Performing Portfolio						
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	
Return on Investment	10.00%	12.00%	-5.00%	6.00%	8.00%	
Investment (Beg of Yr)	\$ 100,000	\$ 104,500	\$ 116,779	\$ 110,648	\$ 117,010	
Return on Investment	\$ 10,000	\$ 12,540	\$ (5,839)	\$ 6,639	\$ 9,361	
Advisor Commission	\$ (5,500)	\$ (261)	\$ (292)	\$ (277)	\$ (291)	\$ (6,622)
Investment (End of Yr)	\$ 104,500	\$ 116,779	\$ 110,648	\$ 117,010	\$ 126,078	\$ 126,078
Advisor's Commission	5.50%	0.25%	0.25%	0.25%	0.25%	
Investment (Beg of Yr)	\$ 100,000	\$ 109,000	\$ 120,990	\$ 113,731	\$ 119,417	
Return on Investment	\$ 10,000	\$ 13,080	\$ (6,050)	\$ 6,824	\$ 9,551	
Advisor Fee	\$ (1,000)	\$ (1,000)	\$ (1,210)	\$ (1,137)	\$ (1,104)	\$ (5,631)
Investment (End of Yr)	\$ 109,000	\$ 120,990	\$ 111,731	\$ 119,417	\$ 127,776	\$ 127,776
Advisor's Fee	1.00%	1.00%	1.00%	1.00%	1.00%	

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