

# Perspectives

NOVEMBER 2009

## RETIRE WITH DIGNITY OR IN DESPAIR:

*The most important thing your employer can do to increase your odds of success!*

By William J. Militello, CIMA, AIFA

In my experience in speaking with hundreds of employers, I have found *fiduciary indifference* to be the single greatest problem with retirement plans today. This newsletter is the first part of a multi-part series demonstrating the quantifiable value of an Independent Fiduciary. Being a fiduciary is more than having a 'do no harm' attitude. Independent Fiduciaries must proactively do good. Piedmont is an Independent Fiduciary and was hired to perform this vital role for you.

Other than the employee's lack of will or financial ability to consistently contribute and thus save a portion of his salary, a participant in an employer sponsored retirement plan is almost guaranteed an unsuccessful outcome if this simple precautionary step is not taken by their employer—hire an Independent Fiduciary.

Without the aid of an Independent Fiduciary, the two most common reasons that investors reach retirement age without sufficient retirement savings are the underperformance of the investments and the lack of attention spent on cost containment. I will explain how to avoid the mistakes that thousands of companies and their employees make every year and instead show how they can achieve optimal investment performance.

Too many retirement plans in America do not come with advice. Why? Because according to the law that governs investments,

the person who would provide the advice must accept fiduciary responsibility in writing for his recommendations and then become subject to personal liability. In other words, an authentic retirement plan advisor must meet the fiduciary standard as an Investment Manager and will be held accountable for his decision; and by contrast only a charlatan would lead you to believe he can 'advise' you without meeting the minimum legal criteria outlined under ERISA Section 3(38).

Basically, it is impossible to provide impartial advice and at the same time have a conflict of interest with a client. Many times, employers and employees think they are getting advice but are not. How do you know the difference? When the basic criteria of impartiality have not been legally met the investor gets more salesmanship than advice. Many salesmen are posing as advisors or retirement plan consultants. Their conflict of interest lies directly with their compensation as insurance agents or representatives of broker-dealers. A commission-based agent or broker says he is working for you but is paid directly from the Insurance Company or Mutual Fund Company. The investor is then directed or 'advised' to choose one investment option over another even though the 'advisor's' compensation varies with each investment option. These false-advisors are not providing advice worth taking since they

have every incentive to direct investors into often underperforming investment choices which pay them the greatest commissions.

It is a well-known fact that the higher the commission paid on a financial product, the lower the performance. The extra cost that is layered on by false-advisors and the performance of the investment are inextricably linked. Russell Kinnel said in his report on Morningstar ratings, "Look for low costs---still the best predictors of performance."

It is natural for investors to seek professional advice since many studies have demonstrated that the majority of plan participants lack the specialized knowledge to make good investment decisions. However, the professional from whom you seek investment advice is more important than the investment choice itself. The first priority is to seek the advice of an Independent Investment Fiduciary. An Independent Investment Fiduciary {ERISA 405(d)(1)} will work solely in the best interests of the plan and its participants. They are experts at vetting investment choices, lowering costs and managing model portfolios for participants. The employer also benefits by transferring their fiduciary liability to this Independent Fiduciary.

Because your company retirement plan has hired an Independent Fiduciary, you can rest assured that the investment options

**(over)**

### William J. Militello, CIMA, AIFA



*William J. Militello experienced Wall Street first hand as an institutional equity trader with Knight Capital Markets in New York, and currently serves as the Managing Principal of Piedmont, an SEC registered investment advisor. Mr. Militello has consulted for the Securities & Exchange Commission and is a graduate of the U.S. Naval Academy in Annapolis, MD, and received his MBA from Boston University. He is a Certified Investment Management Analyst (CIMA) and a member in good standing with the Investment Management Consultants Association (IMCA). Additionally, Mr. Militello is a volunteer with the Evelyn Brust Financial Research and Educational Foundation,*

*where he provides unbiased, professional investment advice on a pro bono basis.*

# Piedmont

INVESTMENT FIDUCIARIES, INC.

19455 Deerfield Avenue / Suite 307  
Lansdowne, VA 20176  
703.729.8333 phone  
703.729.8355 fax

were chosen with your best interests in mind. Next, the decision whether to self direct your investment or follow the model portfolio recommendation of the Independent Fiduciary will be equally clear.

Data supports the assertion that investors who follow the recommendation of an Independent Fiduciary and invest in a model portfolio outperform the do-it-yourself approach. A study commissioned by John Hancock tracked the performance of 14,487 plan participants between 1997-2006 and found the do-it-yourself investor yielded an annualized return of only 5.3 percent versus a professionally managed model portfolio which yielded 7.2 percent. In another study

during a more difficult period for the stock market (May 1998 until October 2009) Piedmont tracked its managed Balanced Model Portfolio versus the unmanaged S&P 500 Index. Piedmont's model portfolio outperformed the S&P 500 by 4.60% (5.9 vs. 1.3 percent) during this ten year period.

To calculate the value of an Independent Fiduciary, consider two different forty year old plan participants who each have a \$75,000 balance in their 401(k) and contribute \$7,000 per year until they reach 65 years old. In this scenario, the investor who chose the Model Portfolio created by the Independent Fiduciary retires with a \$366,094 greater balance than the one who followed the index.

Clearly, the benefit of hiring an Independent Fiduciary is material for both the employee and the employer. Next month, I will expose the Hidden Fee: The Fiduciary's Paradox and continue to quantify the value of the Independent Fiduciary in Piedmont's work to reveal hidden fees and expenses that rob investors of their retirement security.

**The same money you spend in retirement will be earned from what you save today. We recommend you review the savings plan calculation and investor profile questionnaire annually and call us to discuss your investment selection, especially before making changes. Contact Piedmont (1-800-453-2056).**

Featured below is a table of performance figures. The figures represent a comparison between the investment performance of Piedmont's managed model portfolios versus well-known stock market indices (i.e.: the S&P 500 and the MSCI EAFE). I continue to believe that managed portfolios that are broadly diversified, low-cost and follow the tenets of Modern Portfolio Theory will perform better than an unmanaged index and individually managed discretionary accounts.

## Periodic Performance Monthly: 05/1998 - 09/2009

Data Series	YTD	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Volatility/ Risk
Piedmont Ultra Conservative Portfolio	9.31	5.62	11.97	5.83	5.22	5.15	6.77	4.91
Piedmont Conservative II Portfolio	12.23	8.25	18.22	2.24	2.38	4.56	6.45	6.99
Piedmont Balanced Portfolio	14.46	10.02	22.62	1.01	1.21	4.42	6.35	8.60
Piedmont Growth & Income Portfolio	16.31	11.94	27.14	-0.61	-0.20	4.15	6.21	10.29
Piedmont Growth Portfolio	19.00	14.55	33.57	-4.86	-3.29	3.27	5.67	13.72
Index MSCI EAFE Index (gross div.)	29.58	19.52	50.42	3.80	-3.12	6.57	2.97	17.18
Index S&P 500 Index	19.26	15.61	34.02	-6.91	-5.43	1.02	-0.15	19.21
Index Merrill Lynch Three-Month US Treasury Bill Index	0.17	0.07	0.12	0.39	2.82	3.11	3.11	1.06

### Performance Disclosures

- The results portrayed are model results for the period 4/1/07 to present. Results prior to this date are hypothetical. There are limitations inherent in model results, particularly the fact that such results do not represent actual trading and that they may not reflect the impact that material economic and market factors might have had on the adviser's decision-making if the adviser were actually managing clients' money.
- The results portrayed are net of investment advisory fees. A fee of 1.5% per annum was used to calculate the net of fees results. The fee schedule is in Part II Form ADV.
- The results portrayed reflect the reinvestment of dividends and other earnings.
- The models are compared to the S&P 500, One-Month US Treasury Bill Index and the MSCI EAFE (gross div.). The S&P 500 index is a non-managed selection of equity securities, which assumes reinvestment of dividends and has no trading costs, management fees or expenses, which would reduce the return. The S&P 500 is widely used as a benchmark and is widely recognized as representative of the broad general market for domestic equities. The MSCI EAFE Index is recognized as the pre-eminent benchmark in the U.S. to measure international equity performance. The One-Month Treasury Bill Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one month.
- For various reasons (tax, personal preference, restrictions, etc.) some clients of the adviser may have had investment results materially different from the results portrayed in the model.
- The portfolio models are allocated among a group of mutual funds consisting of equity and fixed income funds depending on risk tolerance. The asset allocation for each model is available upon request.
- The conditions, objectives or investment strategies of the model portfolio did not change materially during the time period portrayed.
- Some of the mutual funds used in these model portfolios may be different than those offered by your plan or used by your advisor. Ask your advisor or Plan Administrator for details.
- It is not our intention to indicate that past performance is any indication of future results. As with any investment, returns will vary and there is a potential to lose money.
- The volatility/risk column displays the standard deviation of the funds since inception; the higher the number, the higher risk associated with that fund.