**Registered Representative and RIA Investment Portfolio Trading Tutorial**

**Real World Personal Finance Software**

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This is ancient and hasn’t been revised

How to Manage Fee-Based Investment Accounts

Let’s assume you want to sell a [Level I or II](http://www.toolsformoney.com/financial_planning_services.docx) prospect on our assets under management for a fee program (AKA Pershing Capital Account). Here is the “usual” sequence of events:

Step 1: After you’ve done the preliminary stuff, have them fill out the investment part of the fact finder.

The first page is a summary of goals, then there’s a few pages with multiple choice questions, then there’s a multiple choice question scoring tool that puts them into one of the five risk categories, and then there is a page where they tell you what they want you to do with their money.

Try not to skip the first and last pages. If you need to send us the fact finder for any reason, send us a copy, don’t send us the original fact finder - keep it in the client’s file.

Step 2: Let’s assume they scored a Moderate risk category.

Then for learning what to say, use the Pershing Capital Account Model part of this training piece <http://www.toolsformoney.com/money_management_presentations.docx> and show them the Moderate Model.

Try to call these things samples, not Models. Tell them this is what you recommend - you want to use these asset classes, and buy these mutual funds to represent the asset classes, in these percentages.

Show them how the mutual funds have done Year-To-Date over the last 12 months, and last three years; both on an individual fund basis, and when combined into a portfolio - before and after fees.

Tell them what your fee will be, and that it will be divided by four and taken out of their account automatically, in advance, at the beginning of every quarter.

Tell them there are no “commissions,” but they will have to pay “nominal ticket charges” when trades are made. Tell them you don’t get any of this money when you make trades.

Example: $100,000, 1.5% fee account is started on 1 March. 0.375% (37.5 bp) will be taken out of the account at the beginning of each quarter. The gross fee (before everyone’s take) will be $375. This will come out on 1 March to pay for your services from 1 March to 31 May. On 1 June, 0.375% of the account will be billed again for June - Aug.

It is your responsibility to make sure there is enough cash / money market in the account for fees on the magic assessment date. Nobody will automatically sell securities to raise the cash to pay your fees! If there is insufficient cash, you won’t get paid, and you don’t want to go through the hassle of trying to fix this once it happens.

If they have any interest in the program, this is the point where you'd give them prospecti and all of the mutual funds you're recommending. You should, by now, have a stock of at least ten current prospecti of all of the funds used in the Models. A system for managing this is the piece called <http://www.toolsformoney.com/mutual_fund_prospecti.docx>.

Compliance did approve giving people the Pershing Capital Account Model piece, but only when:

• Accompanied with the cover page, <http://www.toolsformoney.com/financial_plan_report_cover.docx>.

• Accompanied with the document, <http://www.toolsformoney.com/model_portfolios_newsletter.docx>.

• Accompanied with current prospecti on all of the funds in all of the Models. Yes you have to give out

 prospecti for all 15 funds if you're selling load funds (A-shares).

Step 3: At this point in the program, they will have either said, “no,” “I wanna think about it,” or “yes.”

If they said yes, then do the paperwork, and consider this is your approval from the client to make the trades (after the cash is in the account of course, don’t go making trades before there’s money in the account!).

You should document that they gave you approval to trade somewhere, and which Model you used. You can use a computer database / contact manager program, get them to sign something, or just write a note and put it in their file.

We recommend getting a contact log program so you can keep track of other important stuff too. This “approval to trade” stuff is an area of serious potential bad marks on the ol’ FINRA U-5, so please do your thing right here!

Nobody at the BD level has discretionary authority (the ability to make trades in client accounts without their prior approval), so you’ll need to get the clients’ permission before doing every trade. Keep records and pay attention to the joint account thing: If it’s a joint account, then both parties need to approve. If it’s not a joint account, only the owner can approve a trade. Do not let the husband say it’s okay to make a trade in the wife’s separate account, etc.

Step 4: At this point the prospect is now a client, and you are doing paperwork. Please don’t ask us about paperwork, because we are totally clueless!

If you’re transferring assets in from another securities firm, call that firm to make sure you do your thing right for them. Just because you filled out the Pershing forms right doesn’t mean the other firm will accept it and transfer the assets.

Some firms make you fill out their forms, and some firms won’t let you transfer at all. You’ll need to liquidate all of the assets at firms that won’t let you transfer their assets at all, and have them send the cash net proceeds to Pershing. It’s assumed here that you already have permission to liquidate current holdings.

Step 5: After the paperwork has gone through, Pershing will give you an account number. At this point it’s your responsibility to make sure all of the assets have transferred into the new capital account. If there is a complication or problem, then it’s your responsibility to follow up and fix it. Once everything is there, you will be in one of two situations:

1) You will have all cash in the account (the preferred situation).

2) You will have some combination of old assets and cash in the account.

Step 6: If you have all cash in the account, then implement the Model that you and the client had agreed upon as described in the directions: <http://www.toolsformoney.com/model_portfolio_instructions.htm>

You basically just buy all of the mutual funds with the cash now (don’t wait for a “down day or anything like that). If there are other assets, then you will have to decide, with the client in most cases, whether to keep them or sell them. For example, if they came to you with 30% of their assets in Microsoft stock (large-cap growth asset class), and they don’t want to sell it, then you wouldn’t buy a Growth (large-cap growth mutual fund) because they have too much in this asset class already.

Feel free to give us a list of their assets and we will evaluate them for you (yes, we will do this for Level I and II clients and prospects too). Once you have decided what to sell and keep, and have approval, you are ready to trade.

Step 7: Trading. There are three ways to make trades - Call, fax, or use the Internet based system called NetXPro.

Step 8: One of the least understood, and most dangerous way to get into compliance trouble, is the wonderful world of “trade tickets.”

A trade ticket is your instructions to BD trading to make a trade. You'll need to have something documented that says you made this trade, on this day, charged this much in commission / ticket charge, and that the trade was either solicited or unsolicited, etc. There is probably a compliance manual / instructions on this somewhere, but we have no clue where.

There are a couple of ways to make trade tickets:

• If you use NetXPro, the program will automatically make them for you to print out.

• If you phone call orders in to the trading desk, then you’ll need to do something about making trade tickets. We don’t know, so you’ll need to ask someone who knows.

About dividends and capital gains: You can do what you want, but here are our recommendations - Reinvest both dividends and capital gains on all stock funds unless the client is making (periodic) withdrawals. If a client is retired and living off the income from the portfolio, you most never will want to reinvest dividends from any fund. You would also not want to reinvest capital gains on any kind of fund.

On all bond funds, whether they take money out or not, let dividends go to the cash account and reinvest capital gains. There are many reasons for this - but the top three are to keep enough cash for fees, keep some cash for withdrawals, and because bond funds are not meant to “grow” like stock funds.

The purpose of bond funds is to produce income. When the cash gets to a point where it’s big enough, and there’s enough for fees, and no withdrawals are expected, then use the excess cash to buy more stock funds when you rebalance quarterly.

This will keep you out of trouble on all fronts, and also will help stabilize account performance. Dividends and interest payments are so small these days that you won’t be in the positions of having too much cash from these techniques unless you ignore the account for over a year or so.

Step 9: At this point you’ve made trades and now you’re getting confirmations in the “mail,” or will soon.

Remember that the clients get copies of the confirms the about same time you do. The day after the trades were made, you’ll need to look at the account to make sure they all “hit” (worked right). Some funds take more than a day to hit, so just keep checking for a few days to make sure they all hit.

Don’t call anyone about trades not hitting for at least four business / open market days. It’s normal for a trade not to hit for 2 - 3 trading days. If a trade hasn’t hit by the fourth business day, then call someone.

To check if trades hit, get account status, holdings, activity, etc., you can either use NetXPro, or have Rep Services fax you a copy of the BrokerView AHO (account holdings) and AH (account activity) screens.

Just call them, give them the account number, and tell them you want them to fax you the AH and AHO screens. They know what this is. Because of the many problems with NetXPro (takes too long to post, missing assets, wrong numbers, etc.) you may want to get rep services to fax you these screens to confirm what you see on NetXPro.

The point is to make sure what you wanted is what you got. You'll need to make sure all of the trades hit right. Start by calling rep services, not trading, to get your questions answered.

If rep services can’t help you, they will tell you to call trading or someone who can. Try to never bother the trading desk unless you have to because they are very busy, they will get mad at you, and they are usually not shy about telling you where to stick your problems if what you’re calling about is not their thing.

Step 10: After you’ve made sure all of your trades hit right, it’s time for the last step - matching confirms to trade tickets.

When you get trade confirmations in the mail, you'll just compare them with your trade tickets. If they all match, you’re in luck, and all you need to do is staple them all together and put them in the client’s file. If they don’t match, you’ll need to chase it down until you resolve every mismatch.

You will get dinged in a compliance audit if you have confirms that do not match trade tickets. And you surely don’t want to be in a position of not having a trade ticket for every confirm! So, got a headache yet? Don’t worry, you’ll get the hang of it after you learn the mechanics and do it a few times.

Keep in mind: You get the mutual fund 12b-1 fees on Capital Accounts in addition to your fees. Your fee income will, in theory, increase over time with the growth in the account. Fees are the best way to get a steady paycheck in this business, which will allow you to work the amount of hours you want, make the money you want, so you can have more fun.

Also, when you get your fee every quarter, this is your cue to look at the client’s account and make sure everything is okay. Is there enough cash? Does it need rebalancing? Did a security they came to you with, that they didn’t want to sell bomb out? Etc. The point of getting fees on an ongoing basis is so you’ll have incentive to provide good client service and not ignore your clients after the sale is made. If you don’t give good ongoing service, the clients will pull their accounts and go to the competition.

Then always remember to ask for [referrals](http://www.toolsformoney.com/financial_planning_referrals.docx)!