

KEEBLE & PYKE

FINANCIAL ADVISORS LLC

Frequently Asked Questions

The following are common FAQ's from our clients with answers for your reference

1. How does Keeble & Pyke compare to the national firms?

Keeble & Pyke is a Registered Investment Advisor founded by John Keeble, CFP® (a CERTIFIED FINANCIAL PLANNER™ practioner) and Charles Pyke, JD, (Doctor of Law). The firm is a local, independent, boutique, with the resources of some of the largest national firms. The clearing firm or custodian (the organization in which investments are bought and sold and which provides the monthly statements) is Pershing, a subsidiary of the Bank of New York-Mellon, the oldest bank in the United States.

2. Who is Pershing?

As referenced above, Keeble & Pyke utilizes Pershing as the clearing firm, or custodian (the organization in which investments are bought and sold and which provides the monthly statements). Pershing is a subsidiary of the Bank of New York-Mellon, the oldest bank in the United States.

3. Why do I need to coordinate my estate plan with my investments and financial plan?

One of the most important issues is having the correct beneficiaries on your retirement plans (such as IRAs and 401(k) Plans) and other non-probate assets, such as life insurance and annuities. For example, the best Last Will & Testament cannot direct where the assets of retirement plans and other non-probate assets go upon the death of the owner, because the beneficiary designations on these non-probate assets ignore, or trump the will. It is extremely important to follow your estate planning attorney's recommendations in naming the beneficiaries of such assets so that it is consistent with and/or "dove tailed" into the terms of your estate plan.

4. Why do we need to meet with Keeble & Pyke at least every six months?

It is important for you to tell us about any financial changes or changes in your investment objectives or risk tolerance so that we can adjust your portfolio accordingly. We also want to take the time to review with you in person your investments and any recommended revisions to your portfolio. We believe that meeting regularly is important both to you and us.

5. Who should I call at Keeble & Pyke when I have a question?

Call us any time at 770-507-0025. We work as a team, so ask your questions to the person who answers the call and we will get the questions to the best person.

6. What is a good source of information about investments, estate planning, insurance, etc.?

Our newsletters and our web site, www.keeblepyke.com, and the web site of Pyke & Associates, at www.cpyke.com

7. What are the most common concerns of our clients?

There are five areas which we address with clients and most any concern a client has will fall into one of the following five areas: —————>

1) Protection of Assets

- (a) Disability or Premature death-How do I secure my family's income and retirement if I am disabled or die prematurely?
- (b) How do we protect our retirement assets and investments from Long Term Care costs if I (we) need Long Term Care or Nursing Home assistance?
- (c) How do I keep ahead of inflation, but also not take too much risk of big losses in the stock market?
- (d) How do we best avoid significant market losses with our investments?
- (e) How do I protect my assets (home, investments, retirement plan) from law suits related to an automobile accident or other areas of risk?
- (f) How do I secure Health / Medical insurance if I retire before age 65 when Medicare begins?

2) Estate Planning

- (a) Who will help my spouse with the investments when I pass away, or if I am not able?
- (b) How do I reduce or eliminate estate taxes, especially considering that life insurance and the growth of my assets over time are included in my estate tax calculation, and the possibility that the estate tax laws will change?
- (c) How do I correctly title my accounts and name correct beneficiaries to ensure that my investments are coordinated properly with my estate plan?

3) Retirement

- (a) How do I plan to avoid running out of money in retirement?
- (b) How much do I need to save each year to meet my retirement income needs?
- (c) What Pension options should I elect-survivor income with a lower monthly amount or no survivor income with a higher pension for me?
- (d) Which assets do I spend first-my IRA or non-IRA assets?
- (e) How and when do I calculate Required Minimum Distributions from my IRA?
- (f) How can my non-working spouse contribute to an IRA?
- (g) At what age should I start my Social Security payments?

4) Taxes

- (a) How can I reduce taxes?
- (b) Since only a spouse can affect a 401(k), IRA or other qualified Retirement Plan Rollover in order to continue tax-deferral, how do I reduce estate taxes and income taxes in any IRA when I die?
- (c) Should I convert my IRA to a ROTH IRA?
- (d) Should I pay off my mortgage and lose the mortgage interest deduction?

5) Investments

- (a) How do I invest for growth, but not take too much risk?
- (b) How do I invest for income and growth, but not take too much risk?
- (c) Should I invest in mutual funds, individual stocks or a mix of stocks and bonds?
- (d) How do I know what fees I am paying in my mutual fund and brokerage account? (Many clients do not realize that they are paying mutual fund expenses - management fees, 12b-1's, trading costs, etc.)

8. Why do we want to use mutual funds *and* individual stocks and bonds?

Our advisory program enables clients to get the best of both worlds, the world of mutual funds *and* private money management. There is an ongoing debate on the practice of money management-*mutual funds vs. private money management*. Simply put, mutual funds offer extraordinary diversification, professional money management, and convenience. However, there are some disadvantages, including negative tax issues (in taxable accounts) and the inability to allow the investor to “buy low”.

Private money management allows the money manager to hand select individual stocks and bonds for your account at what is perceived to be a low price. (Separately managed accounts (SMA) is another term used for Private Money Management.) Some accounts called “Separately Managed Accounts” (SMA) purport that they are doing the same thing, but most often these other SMA accounts purchase a “block” of stocks and bonds (not adhering to a true “buy low” strategy”) and the account can resemble a mutual fund in that your money is invested in a “pre-assembled” basket of securities without regard to some of these securities being at a high price. Private Money Management does provide diversification, although not to the degree of mutual funds. However, utilizing a privately managed account may allow you, as an investor, to be more *opportunistic* in efforts to purchase stocks in quality companies at what is believed to be a low price.

9. Why do I pay a quarterly fee in my Advisory account? I’ve never paid a fee before.

This is a common misunderstanding. You always pay some type of fee or commission or experience some other cost for investing. In no load mutual funds, brokerage accounts and in mutual funds in 401(k) Plans, you pay the annual management fees of the mutual funds in which you invest. You may not see these fees, although they are disclosed in the mutual fund prospectus, as these fees are deducted before you see the net results of the fund manager. In addition, mutual funds are subject to additional trading costs not articulated in the prospectus, but are often explained in the “Statement of Additional Information” of most mutual funds.

We disclose all fees, including advisory and mutual fund fees, when the accounts are established and you receive a notice of the fees (in your Pershing statement) which are automatically debited from your account.

10. Why is there so much cash (money market assets or short term securities) in my account?

This is a common question for new accounts. In an effort to be opportunistic, we take our time in getting invested. There are times when bonds are paying a reasonable return with little risk of fluctuation, but there are other times when bonds are subject to fluctuation due to an interest rate increase, or other factors. We will therefore use money market accounts, T-Bills, or other short-term securities as our “dry powder” with the strategy of waiting to buy securities at a lower, more attractive price. Keep in mind that these securities are liquid, thus allowing us to strike while the iron is hot, or when we find a good investment. You could miss an opportunity being locked up for 12 months in your CD. Of course, there are situations where a one year CD is appropriate.

11. Why do the new stocks purchased in my portfolio seem to fall in value initially?

The day that you no longer feel the urge to ask this question will be the day you truly appreciate fundamental, value investing. Suppose that you knew of a company that you believed was an excellent company, and you wished to invest in the company. The company has paid dividends for 20 years, has had increasing profit margins over many years, and increasing ROA (Return on Assets) and ROE (Return on Equity) and has had manageable, decreasing debt, and a

management team which has been in place for many years. However, the price of the company has been too high. You have been watching this company for many years, and then you notice the stock price starts to fall. You resist buying too early and wait until the price falls to what you believe to be a good price. You dip your toe in the water and buy just a few shares, but you really would like to own more shares. You are not sure if the price will go back up, or will continue to fall. You want to buy more, but your investment model suggests that the price would need to fall more in order to justify buying more shares. Now, answer this question: Do you want to stock price to rise or fall at this point? If you said “Fall”, then you understand why the stock prices on newly purchased companies in your portfolio may fall during the purchase period.

12. Why is the Yield on my investments, as shown on the statement, so low?

The yield of an investment is the interest or dividends which that investment pays to you on some regular basis such as monthly, quarterly or semi-annually. For example, a CD which is paying 5.0% has a yield of 5.0%, and if compounded daily will yield slightly higher than 5.0%. A bond with a coupon or interest payment of 5.0% has a yield of 5.0%, but your total return at the end of the year will be determined by adding the yield to the increase or decrease of the price of the bond. For example TIPS (Treasury Inflation Protected Securities) over the last several years have paid yields of 2 to 4%, but total returns of over 8%, because the price of the bonds rose because of various factors, including the “flight to quality” during volatile stock market periods. Another example of total return is with a stock, or mutual fund. If the stock or fund has a yield of only 1.5%, but the price of the fund increases by 7.0%, then the total return for the period is $1.5+7.0=8.5\%$. However, only the yield is shown on the quarterly statement. This sometimes useful figure (yield) was first found on Bank Trust Account statements. This figure helped the trust officer estimate the income which a portfolio could generate for a trust beneficiary, which is the income the portfolio would generate without spending the corpus, or principal. Brokerage and advisory statements usually show the yield for the same purpose, but just remember, the yield is only part of the story! Don’t compare this number by itself with a CD or other investment without understanding the total return of the investments.

13. On some statements the costs basis appears as a higher value than the market value. Does this mean I’ve lost money?

Not necessarily. To determine how your original investment has grown, look at the initial investment (not including the reinvested dividends) and compare this original investment to the current market value. This will reveal how your investment has grown. The “cost basis” is for tax purposes only. For example, you invest \$10,000 on 1/1/2000. The fund pays dividends totaling \$300 annually, so at the end of 5 years, or 12/31/2005 (assuming that there is no growth (no increase in the price of the fund)), then the market value at the end of the 5 years would be \$11,500. The cost basis would be reflected as \$11,500 (your original \$10,000 plus the \$300/ year for 5 years). If you sold the fund, you would have no long term capital gain and no taxes to pay. However, keep in mind that your original investment was \$10,000, so your investment grew by \$1,500 (i.e., the dividends). Of course, we expect that the price of the fund will grow, but there are times when the price may fall, but you may still experience a positive investment return because of the dividends paid. Summary: Do not assume that you have lost money always when you see a negative “cost basis” value. You pay taxes on your dividends paid each year, and the government is kind enough to let you add the dividends to your starting point when you calculate gains or losses.

Please note that with individual bonds (not bond mutual funds), or even with mutual funds when dividends and interest are paid to the money market account (and not reinvested) that the interest is added to the money market account, thus increasing your total portfolio value, but it is not necessarily seen in the value of the bond or the mutual fund. In fact, sometimes the bond/ mutual

fund may show at a loss, but, in fact, has contributed to an overall positive return, but the additional value is reflected in the money market account to be later invested in other opportunities. With TIPS (Treasury Inflation Protection Securities), there are two types of additions to the value - the interest which is paid to the money market accounts and the inflation increase (if there is inflation), but this is added to the principal of the bond, and not the money market account.

14. Why do TIPS (Treasury Inflation Protection Securities) sometimes fluctuate in value?

Actually, any bond can fluctuate in value as interest rates move, or from other factors. If you bought a three year CD paying 5.0% and just a few months later, you saw a three year CD paying 6.5%, have you lost money? Not really, but you have lost an opportunity. (You may recall the term “Opportunity Cost” from your economics class.) In the world of bonds, if rates in the market place rise, then the bonds you own may reflect on your statement a lower value, because a bond of the same type could be bought at a better yield than the one you own. Generally, when interest rates in the market rise, the price of your bonds fall, and when interest rates fall, the price of your bonds rise. It is important to understand that bonds owned individually (as opposed to those owned in a bond fund) can offer more security, in that you will get the face value of the bond when the bond matures. This is not so with bond mutual funds. However, bond mutual funds can offer better diversification and professional management. We use a combination of both.

15. Why don't you use index funds, I-shares, or Exchange Traded Funds (ETFs)?

Hopefully you have determined by now that a key ingredient to growing your money is protecting your money from market losses, and other areas of risk. Index Funds and Exchange Traded Funds are non-managed baskets of stocks which represent a total market, such as the 500 stocks in the S&P 500, or stocks in a particular industry. These securities carry 100% of the risk of the market. You are buying the good and bad companies, the under priced and overpriced companies. This is a type of gambling, and we do not recommend it. We recommend utilizing professional money managers with track records of beating the indexes over time.

16. What should I do with my RMD (Required Minimum Distributions) which I am required to take out of IRAs each year?

You cannot avoid RMD, so you may as well make the best of the situation. You should appreciate the possible tax-deduction you enjoyed when money was contributed to your retirement plan and the tax-deferral while the money was growing in your account. Now that you are required to take some out, you can appreciate the fact that, at least, the money won't be subject to income tax when you die, but will be taxed as it grows going forward. You may want to consider municipal bonds or low turnover stock portfolios. We usually recommend that you transfer the RMD to a non-IRA account which we manage so we can continue to manage the money. You do not need to take the money and spend it if you don't need the income. Many clients find it fulfilling to take this money each year to fund a Long Term Care Insurance policy to protect from a long term care need cannibalizing a portfolio in later years. The fourth quarter is a good time to take RMD (not too close to the year end) and is a good time to meet with us to discuss investment strategies and your portfolio.

17. How do I protect my assets from a lawsuit, or from liability associated with an automobile accident, or with someone being injured on my property?

We are amazed at how many people are under-insured with respect to liability insurance on their home and automobile. This is not about hazard insurance-fire insurance if your home is damaged or destroyed, but liability-a risk that is difficult to measure both the probability of occurrence and the magnitude of the risk if such an event were to occur. For example, suppose that you caused

an automobile accident and a bread winner earning a \$100,000 salary with three dependents, can never walk or work again. How much do you think the judgment would be? How much liability insurance do you have? A good guess would be that the judgment would be in excess of \$1,000,000. The average person we encounter has only \$300,000 in liability protection on their home and auto. The same type of risk is present when someone is working on your home, or when anyone is on your premises. Call us about how to address this issue. We don't sell property and casualty (P&C) insurance, but we can equip you to talk with your P&C agent.

18. What new account forms, prospectuses, ADV's and statements should I keep and for how long?

We suggest that you retain the most recent ADV, part II, which we provide, your opening account forms and contracts, and prospectuses and replace them as you receive updates. Keep 1099's and year end statements for seven years. You do not need to save each monthly and quarterly statement.

19. Is there a savings or investment strategy which would allow me the potential of doing better than bank CDs with respect to keeping up with inflation and yet, having safety of principal with little or no risk of the stock market?

Yes. If you have determined that you do not want to take the risk of the stock market, we can help you design a three part investment and savings strategy which will have little or no risk of the stock market by utilizing a combination of 1) TIPS (Treasury Inflation Protection Securities) which are U.S. Government bonds with inflation protection, 2) Short to intermediate bonds and/or bond funds, and 3) *Fixed Annuities which may provide better rates than CDs. Annuities can also offer tax-deferred growth which is applicable to non-IRA account. **Caution:** Be careful with the numerous annuity products in the market place, which may not be at all what you expect when you examine the annuity features. There are many possible fees and charges associated with annuities. We can help you determine if an annuity is suitable for your situation.

*There is a surrender charge imposed generally during the first 5 to 7 years that you own the contract. Withdrawals prior to age 59 ½ may result in a 10% IRS tax penalty, in addition to any ordinary income tax. The guarantee of the annuity is backed by the financial strength of the underlying insurance company.

20. Can you do my tax return?

KP&B Tax Planning, LLC, a tax planning and tax return preparation firm with offices in Stockbridge and Fayetteville, can help you with tax planning and tax return preparation. KP&B Tax Planning, LLC is a *separate* firm from Keeble & Pyke Financial Advisors, Inc., and from Pyke & Associates, PC. This firm was formed by Charles B. Pyke, Jr. and John B. Keeble, IV in response to clients' needs for help with not only tax return preparation, but also *tax planning*. The tax return is prepared after the end of the year when it is too late to do planning, except for a contribution to an IRA, for example. However, tax planning occurs *during* the year before the year end. Tax planning is proactive, not reactive. This proactive tax planning is what we want to encourage all of our clients to do. KP&B Tax Planning, LLC will be happy to send a tax organizer or schedule an appointment with you.

Securities offered through Multi-Financial Securities Corporation (MFSC), Member FINRA, SIPC.
Associated persons of Keeble & Pyke Financial Advisors, LLC are registered representatives with MFSC, which is otherwise unaffiliated.
Keeble & Pyke is a Registered Investment Advisor