***September 2017***

***PAY TO PLAY:***

*What does your brokerage firm have in common with the local super market chain where you shop? Supermarkets charge****a slotting fee, or pay-to-stay fee****, which is a fixed trade spending fee charged to manufacturers by super market retailers in order to have their product placed on their shelves.  If you have ever wondered why your favorite brand of crackers or potato chips are no longer carried by your local grocer, the reason is probably because they stopped paying the slotting fee and nothing to do with how well the item sold.*

*In the Mutual Fund industry it's called****revenue sharing,****a term I'm sure your Investment Adviser is not telling you about.  Asset Managers pay brokerages to subsidize the costs of distributing their mutual funds.****Morgan Stanley****brokers can no longer sell their clients new positions in****Vanguard mutual funds****, including its popular index offerings. Vanguard has never and never will pay for distribution (that's how they keep expenses low). The move seems to fly in the face of****the fiduciary rule,****which in essence argues****against******pay-for-play conflicts of interest****that exist between brokerages and fund makers.****Merrill Lynch****, meanwhile, already****doesn't allow new clients to purchase****new shares of Vanguard's mutual funds. You'll also have a hard time finding other high-quality names such as Longleaf Partners or Dodge & Cox, which all eschew revenue-sharing arrangements.*

*Many****investors think that a fee-based relationship is the same****whether it is at Merrill Lynch, Morgan Stanley or an independent firm.****It's not.****While you may be paying similar fees to your advisor in each of these scenarios, what you don't see is that independent firms don't charge for shelf space, and therefore are free to recommend any product they think is best for their client.****The big firms only recommend funds that have paid them for shelf space.****This can have a major impact on fund selection and portfolio performance.*

*Under the large banks and brokerage houses, Advisors and Portfolio Managers are often under the constraints of recommended buy lists and favored or affiliated fund companies.  At JPD Asset Management I enjoy true freedom to choose the investments that are right for my clients.*

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