Top 5 Problems of UHNW Investor Portfolios

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About the Author

Jack Duval is the CEO of Bantam Inc. Jack has been involved in the securities industry for over 24 years, including working in the Merrill Lynch Private Client Group, founding and managing his own RIA firm, family office, and hedge fund. He holds undergraduate degrees in Economics and Philosophy from Elon College, a Masters in Economics from The New School for Social Research, and the Certified Regulatory and Compliance Professional designation from The University of Pennsylvania Wharton School/FINRA.

About Bantam Inc.

Bantam Inc. (www.bant.am) is a private investment office serving ultra-high net worth investors and specializes in law firm partners, entrepreneurs, and ultra-high net worth families. We build custom, low-fee portfolios for investors with $10+ million of investible assets. We also consult with clients on an hourly or fixed-fee basis without having to manage their assets.

Few firms can match Bantam's fiduciary commitment due to the simple fact that Bantam is a fiduciary twice over, once as a registered investment advisor and second as a New York State benefit corporation.

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Introduction

In my experience, there are five primary problems that negatively affect ultra-high net worth ("UHNW") investor portfolios:

- Complexity;
- Hidden risks;
- High fees (hidden or otherwise);
- Faux diversification, and;
- Balkanization.

Almost every UHNW portfolio I review has a combination of these, if not all of them.

It is, without exception, the *advisors* that create these problems for their UHNW clients. After all, no one walks into a bank or broker-dealer and asks for a complex, undiversified portfolio, replete with hidden fees and risks! Yet that is exactly what many end up with.

The good news is that all of these ills are avoidable. In the following white paper, I describe these five investor portfolio problems in enough detail so that you can spot them, and then give you an easy evaluation checklist that any investing layperson can use.

If you read this white paper and go through the checklist, you will know the extent of your problems. Then you can decide if you want to take action.

Ultra-High Net Worth

First, let me clarify the term "ultra-high net worth investor". A common definition is an individual or family with a net worth over $30 million.

I find focusing on net worth to be a bit deceptive. For instance, I've worked with real estate families that had a net worth in the hundreds of millions, but only had $10 million of investible assets. Conversely, I've worked with attorneys who had a net worth of $30 million, with $20 million in investible assets.

> *Bantam works with investors who have $10 million or more in investible assets, irrespective of their net worth. For simplicity, I refer to these investors as ultra-high net worth.*

Problem One: Complexity

Just as philosophy is the "queen of the sciences" because it can be used to examine the nature of all other disciplines, complexity is the queen of the problems afflicting UHNW investor portfolios because through it, all the other problems are enabled.

I have written extensively about complexity risk and how it affects UHNW investors, including the white paper entitled Complexity Risk: A New Risk Category.

Complex is different from *complicated*. A jet engine is complicated, flight is complex. Complicated things often require a high intelligence to understand, but they don't behave in ways that were never expected. For instance, despite what you've seen in the movies, a car will not jump up and turn into a talking robot that shoots missiles.

Conversely, complex things can and do behave in unexpected ways. Unfortunately, many investments are complex.

I define a complex investment as one which could have dramatically different outcomes from what was expected. Those "dramatically different outcomes" are always to the downside. You will never have a conservative investment with a three percent expected return that suddenly goes *up* by 80 percent. However, I have seen many investments with an eight percent expected return that went *down* by 80 percent.

While almost no client understands complex investments, many of the people who sell them don't understand them either. Indeed, there have been cases of stockbrokers suing their firms for not educating them about the products their firm told them to sell to their clients.[1]

As the complexity of an investment increases, the odds that the client, advisor, and even its creator truly understands it diminishes. One reason for this is that in almost all cases, complex investments have multiple factors that impact their performance. As these factors increase, the number of ways they interact also increases — but exponentially. Thus, it becomes harder to know all the potential outcomes, especially if those factors have large and unexpected moves.

Of all the elements of complexity, leverage is the most pernicious because it magnifies mistakes. This magnification applies to errors in the investment thesis and to flaws contained in the investment vehicle or strategy used to express the thesis, or both at the same time.

Any investment that uses leverage and/or derivatives has complex attributes, and could have an unexpectedly severe downside. It does not matter if the leveraged investments are theoretically "hedged". Hedges frequently do not perform as expected (a phenomenon so common that it has its own term - "basis risk").

Complex investments typically have one or more of the following traits:

- Leverage;
- Use of derivatives and/or futures contracts;
- Complicated payout structures;
- Opaque disclosure documents with many defined terms requiring the reader to hold multiple definitions in her head at once, and;
- Investors are required to sign something before investing.

As will be discussed below, complexity is where risks and fees get hidden. It is also a killer of investments returns, either by the down escalator of high fees and slippage, or the down elevator of catastrophic losses.

> *Bantam's philosophy is to eliminate as much complexity as possible at every level. In particular, we use straightforward investment vehicles to express our ideas, limit the number of investment positions (usually five to 10), and avoid leverage.*

Problem Two: Hidden Risks

Charlie Munger once said, "Show me the incentives and I'll show you the outcome."[2] Higher-risk investments almost always pay more to the people selling them. Thus, their clients frequently end up with a lot of higher-risk investments.

In order to sell these higher-risk investments, Wall Street has used many tricks, including "untruth in labeling" — that is, investments that have higher risks have names that do not reflect those risks. Indeed, sometimes the names of risky investments convey conservatism.

The Securities and Exchange Commission ("SEC") first cracked down on misleading fund names in 2001 when it required a mutual fund to have at least 80 percent of its assets in the particular type of investment that the fund name suggested.[3] Now, in 2020, the SEC is cracking down on misleading fund names again. Why? Because:[4]

> Funds are increasingly using derivatives and other financial instruments that provide leverage… the (existing) asset test may not provide an appropriate framework when the market values of derivative investments held by funds are relatively small, but the potential exposure is significant.
>
> Funds are increasingly using certain hybrid financial instruments that have some, but not all, of the characteristics of more common asset types that are used in a fund's name.
>
> The number of index-based funds is growing… The staff has observed that index constituents may not always be closely tied to the type of investment suggested by the index's name.
>
> In an increasingly competitive market environment, asset managers may have an incentive to use fund names as a way of differentiating new funds. This incentive may drive managers to select fund names that are more likely to attract assets (such as names suggesting various emerging technologies), but may not be consistent with the purpose of the Names Rule.

Although derivatives can be used to decrease risk, they are more frequently used to increase risk, and this is what the SEC is worried about. "Hybrids" are usually bonds that have some equity-like characteristics. The use of derivatives and hybrids is a way of increasing investment risks.

Using trending names to sell undifferentiated investments also obfuscates. Can I interest you in the new crypto-cannabis-cyber security-fake meat fund that is nothing more than a highly volatile version of the S&P 500?

Investment Marking

Another way that risks get hidden is the infrequent "marking" (updating) of investment values.[5]

The infrequent marking of prices exists for any kind of illiquid investment that trades infrequently, including common stocks, and those that don't trade at all, such as private placements. These investments will frequently be carried on the statement at essentially constant values. For exchange-traded investments like stocks, this is usually the last trade price, which could be very stale. For non-exchange traded investments, it is usually the cost basis. For limited partnerships like private equity and venture capital funds, the value only gets updated when there is a liquidity event in one of the underlying investments, which could be years apart — and even then, only applies to one of the many portfolio firms in the fund.

This creates an illusion of price stability. For comparison, a client's stocks are marked to the market price every day. However, a private equity fund is marked every year or so, in the first few years, and quarterly or so in the later years. If the private equity fund were marked to the market every day, it would have the price volatility of a microcap equity portfolio, which would be highly volatile.

Municipal bonds are another good example of infrequently marked prices. In theory, municipal bonds are "liquid". However, the vast majority of municipal bonds only trade six times a year.[6] Because of this, most broker-dealers and banks use what is called "matrix pricing" (usually provided by a third party) to come up with a value for the bonds using prices of similar bonds, changes in interest rates, and other variables. However, when an investor goes to sell those bonds, they may be at lower prices than what their last statement indicates. This is especially true in the event of market disruption.

Another example exists in structured products, which offer investment returns at *maturity*. However, if a client needs to sell them *before* maturity, the prices can be at significant discounts to the ones on the client's most recent statement.

Structured products have another risk as well — that of the *issuer*. Structured products are almost always issued as notes. This means the payout is first contingent on the financial health of the issuer and its ability to meet the claims of the note holder, and only secondarily on the performance of the underlying investments.

For instance, before the Global Financial Crisis, Lehman Brothers had issued many structured products that had positive performance in their underlying investments, and thus should have returned the principal plus the net gain to the investors. Unfortunately, Lehman Brothers went bankrupt and all the structured products they issued became worthless, irrespective of any gain in the underlying investments.

This was especially dismaying for Lehman note investors because many of those structured products were supposed to provide "principal protection".

Asset Allocation Assumptions

Risks can also hide in the asset allocation of the account. A high allocation to fixed income doesn't always equate to a conservative portfolio. Indeed, bonds can be just as volatile as stocks, if not more so.

During the coronavirus market rout in February and March, these risks were revealed. Before the crisis, billions of dollars of investor capital had been allocated to fixed income funds that, until then, appeared to be low-volatility investments. Unfortunately, these funds actually owned highly speculative bonds and suffered declines equal to, or exceeding, those in the stock market.

A little-known fact is that, unlike stock prices, which generally revert to the mean, bond prices exhibit mean *aversion*. This means the further a bond price moves away from the average, the more likely it is to continue moving away from the average.

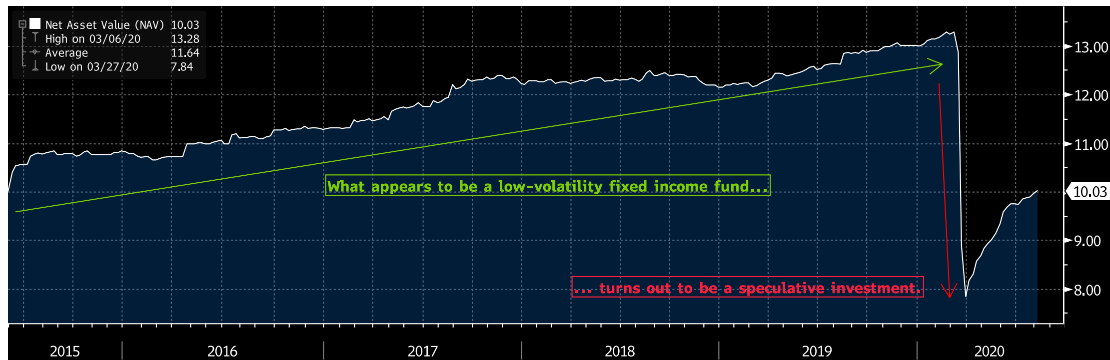
Chart 1: Alphacentric Income Opportunity Fund v. Vanguard 500 Index Fund[7]

Chart 1, above, shows how the Alphacentric Income Opportunity Fund (IOFAX) declined by 42 percent from February 19 through March 23, 2020, with most of that decline coming in the last 10 days charted. This decline was more than eight full percentage points worse than that of the Vanguard 500 Index Fund (VFIAX) over the same period.

Undoubtedly, investors in the Alphacentric Income Opportunities Fund were shocked at the decline because the Fund had never exhibited any significant volatility before then, including all the way until March 11, 2020.

Chart 2, below, shows how this played out, when after four-plus years of low volatility performance, the fund declined by over 40 percent in 10 days.

Chart 2: Alphacentric Income Opportunity Fund Performance from Inception[8]



This is a classic example of what Nassim Taleb calls the "turkey problem".[9] In short, a turkey is fed every day by a farmer for a number of years. Every day confirms to the turkey that the farmer loves it. This belief is reinforced by the turkey's risk management department and economists, who can show, empirically, that the farmer loves the turkey. Indeed, the amount of food given to the turkey has actually increased of late, proving the farmer's love has *increased*, and any risks have decreased.

On the final day, the farmer kills the turkey. This illustrates the limits to what is known as mean-variance (i.e. statistical) risk measurement. An investor (or their advisor) must have a deeper understanding of the investments and the current market environment to truly manage risk.

In my experience, most UHNW investor portfolios have a number of turkeys in them. The higher the number of individual holdings, the higher the likelihood of finding turkeys.

Risks hide in many places, including:

> Deceptive names of investments;

> The inclusion of instruments with highly asymmetric payout profiles, such as options;

> Infrequently marked prices;

> Illiquidity;

> Issuer, and;

> Blanket asset allocation assumptions.

In Bantam-managed portfolios, we only invest in highly liquid, straightforward securities, and do not use leverage. This allows us to take risks we understand, and to avoid the hidden risks that plague complex investments. If we lose money on an investment, it's because our thesis was wrong, not because the investment vehicle we used transformed into something unexpected.

Problem Three: High Fees

Every person of means has had the maddening experience of purchasing a product or service and then finding out later they overpaid by a large margin. It seems that many vendors drive up to a nice house and add another 20-plus percent to their standard price quote.

Wall Street is no different. While these vendors wear suits and work in well-appointed offices instead of wearing boots and working out of a pickup truck, they apply the same additional markup for the folks in the nice house.

Ultra-High Net Worth Investors and Institutional Pricing

UHNW investors are effectively institutions, and should receive institutional pricing. Instead, many of them are paying what amounts to retail prices. I frequently see UHNW investors with $10+ million of investible assets paying all-in fees in excess of one percent.

Here's the simple math: One percent on $10 million is $100,000. That's enough to put a few kids through college every year. Unfortunately, it's not the client's children whose education is being paid for. In 10 years, this amounts to $1 million, however, it's actually more than that due to the negative compounding effect on the client's assets.[10]

New Issue Markups

Fees often get hidden in the purchase price of an investment. For instance, if you buy a stock on the IPO, only about 93 percent of the purchase price of the stock goes to the company issuing the shares. The rest goes to the underwriters and to the expenses of the offering. (This is the case in roughly 98 percent of IPOs, which are done as "firm commitment" underwritings.) The seven percent is a commission paid by the investor to the broker-dealer.[11]

When a municipal bond is purchased, a markup is paid by the client to the broker-dealer (both on the initial issuance and in the secondary market). Until recently, these markups (or markdowns on sales) were not disclosed. In 2018, the MSRB required some principal trade markups/downs to be disclosed, but many are still not.[12]

Other Fees

Most third-party managed products have internal fees, including: mutual funds, ETFs, and other pooled investments. These are disclosed in the product prospectuses, but not on the client's monthly statement or confirmations. The same is true for structured products.

Alternative investments have complex internal fee structures that, while disclosed in the Private Placement Memorandum, are not usually seen by the investor. These vehicles include: private equity, hedge funds, venture capital funds, and other direct investing funds.

Importantly, it is completely irrelevant if the broker or investment advisor receives all, part, or none of these fees. The client is paying for them, and they all reduce the client's returns.

Indeed, fees are a silent killer of investment returns. A one percent fee over 30 years reduces the terminal value of the assets by 20 percent, all other things being equal.[13]

I've never met an UHNW investor who could tell me the all-in fees they are being charged. Many know the headline fee their advisor is charging, but none know the underlying fees from all their investments. Depending on the client's asset allocation these underlying fees could be as high as the headline asset management fee, or more.

The 50 Percent Rule

A rule of thumb is that at least 50 percent of the net after-fee, after-tax return should accrue to the client. This may sound like a low bar, but for many investments it is not. I would go further to say that for simple strategies, especially in fixed income, the bar should be set around 70 percent.[14]

I have seen many UHNW investor municipal bond portfolios that were being charged 75 basis points when the portfolio yield was less than 1.50 basis points. Such high fees in a low yielding fixed income account are effectively confiscatory. This is especially true given the fact that most municipal bond managers are doing little more than laddering the portfolio and rolling bonds out as they mature.

Chart 3: AAA Municipal Bond Yields[15]

Chart 3, above, shows how AAA municipal bond yields have reached record lows. High fees in fixed income accounts mean the client takes all the risk and the manager takes a large portion of the yield off the top.

Alternative investments can also fail the 50 percent rule test, especially when returns are low (anything in the single digits) and/or tax-inefficient, as with most hedge funds.

Common fee types include:

> Commissions;

> Markups/downs;

> Product expense ratios;

> Third party management fees;

> Upfront sales loads;

> Carried interest, and;

> Margin interest.

Bantam keeps fees extremely low by only charging a 25 basis point management fee on the assets and a separate performance incentive fee on the risk assets. (We only earn the performance incentive on any outperformance of the benchmark, i.e. only if we generate true after-fee alpha.) We also use low-fee investment vehicles to express our ideas. Most of our clients have a weighted all-in fee of less than 40 basis points, about one-third of what the typical UHNW investor pays, all-in.

Part Four: Faux Diversification

Virtually every UHNW investor portfolio I review is bloated with numerous separately managed accounts and/or stuffed with various product-of-the-month offerings from past years. This is guaranteed to create:

> Huge, unwieldy statements;

> Unnecessary portfolio complexity, and;

> The appearance of high diversification when there might actually be very little.

The truth is that all equity positions, whether in separately managed accounts, mutual funds, ETFs, or other products, are highly correlated, and provide virtually no diversification benefits. Indeed, in a market decline, they are effectively one position that is going down (i.e. they have a correlation of one).

Only different asset *classes* provide true diversification. Diversification *within* asset classes provides relatively little diversification. A good example of this is the performance of different equity size and style factors.

Equity Size and Style "Diversification"

The U.S. stock market can be divided into four size categories by market capitalization: mega, large, mid, and small. Each of these can then be further divided into growth and value equity styles.

This results in eight different size and style categories. I see many UHNW investor portfolios that have exposures to several of these different equity categories at the same time. Unfortunately, this only dilutes the performance on the upside and does very little to reduce risk.

The performance of these eight equity size and style categories during the coronavirus rout in February and March illustrates this phenomenon.

Chart 4: Equity Size and Style Performance from February 19 through March 23, 2020[16]

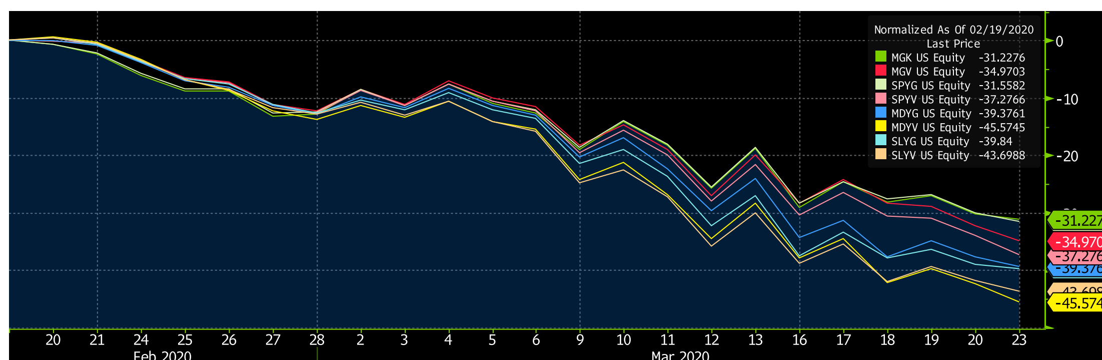


Chart 4, above, shows that *all* equity size and style categories declined in tandem during the coronavirus rout. While it was certainly better to be in Mega Cap Growth (-31 percent) than in Small Cap Value (-44 percent) over this period, diversification across these different equity exposures did nothing to stem the decline.

Compare this to the performance of different asset classes over the same time period.

Chart 5: Asset Class Performance from February 19 through March 23, 2020[17]

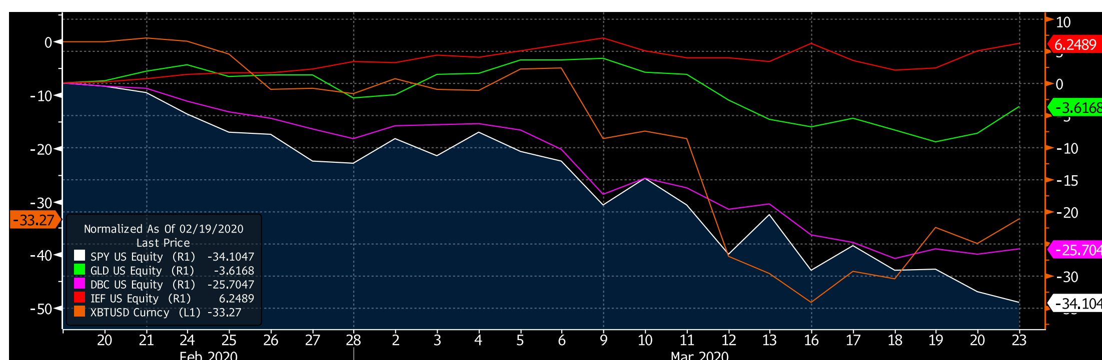


Chart 5, above, shows negative performance in stocks (-34 percent); commodities (-26 percent); and Bitcoin (-33 percent), but positive performance in U.S. Treasury Notes (+6 percent), and slightly negative performance in gold (-4 percent).

Different asset classes tend to provide truly differentiated returns, both during liquidity crises, like the one in Charts 4 and 5, above, and during the long term. However, equities remain highly correlated over the long term, even though their returns are different.

Chart 6: Equity Size and Style Performance from December 31, 2015 through July 28, 2020[18]

Chart 6, above, demonstrates the other problem with having too many equity size and style exposures — it dilutes portfolio performance. Investors are much better off having exposure to the dominant size and style and avoiding the rest.

For instance, in Chart 6, above, Mega Cap Growth generated a 105 percent return versus the Small Cap Value return of eight percent over the same time period. Small Cap Value actually outperformed all categories until the end of 2017, but by the end of 2018, Mega Cap Growth was leading, and extended its lead to today.

These results are unsurprising. Different size and style categories lead or lag during different parts of the investment cycle.

Asset Class Diversification

Unlike equity size and style performance, different asset *classes* have highly differentiated performance over the long term.

Chart 7: Asset Class Performance from December 31, 2015 through July 28, 2020[19]

Chart 7, above, shows how different asset class performance can be over the longer term. In the period since December 31, 2015, gold has returned 81 percent; the S&P 500, 58 percent; Bitcoin, 2,469 percent (left axis); U.S. Treasury notes, 16 percent; and commodities, -3 percent.

These returns show how a core portfolio of five positions can provide high diversification. Most UHNW investor portfolios contain hundreds, if not thousands of holdings that merely add fees and complexity and don't provide any incremental diversification.

This is for Wall Street's benefit, not its clients. A complex portfolio with many accounts and investments *requires* an expensive advisor. That is the point of the complexity. Wall Street creates the problem (a complex portfolio) and then charges a high fee to manage it.

Faux diversification can exist in any portion of a portfolio where there are overlapping investments within an asset class. Some of these include:

> Equity size and style exposures (including separately managed accounts, ETFs, mutual funds, and other vehicles);

> Non-U.S. Treasury fixed income (including corporate, municipal, sovereign and other debt instruments), and;

> Alternative investments (including hedge funds, venture capital, and private equity).

Bantam avoids faux diversification by using a quantitative momentum model to pick the dominant equity size and style category. On the fixed income side, we stick to high-quality bonds and U.S. Treasuries to insure true diversification.

Problem Five: Balkanization

Most people are aware of the term "Balkanization" - meaning to break up something into smaller parts.

In the political context, when a country disintegrates into smaller factions, Balkanization is malignant because the groups are hostile to one another, which leads to continual tension, if not war.

Balkanization is the natural state of most UHNW portfolio structures: multiple brokers, investment advisors, and direct investment promoters, all hostile to each other and fighting a land war for the client's assets.

The Balkanized structure results in the individual (or family) having to fend for themselves when evaluating a continual flow of individually plausible, but collectively incohesive investment recommendations from their various investment vendors.

Conflicting Investments

The lack of one unified investment policy statement governing all the different accounts and investments is highly suboptimal, both from a cost and investment perspective. Indeed, by spreading assets among different firms, the investor increases cost and complexity, and almost guarantees inferior investment performance.

For instance, I have seen many UHNW investor portfolios holding conflicting investments at different firms. By "conflicting", I mean investments that effectively cancel each other out from a return perspective and leave the client paying high fees for an undifferentiated investment.

These conflicts exist in many different forms. For example, assume an investor had $10 million at Firm A in an actively managed Large Cap *Value* equity strategy and $10 million at Firm B in an actively managed Large Cap *Growth* equity strategy. These two investments would effectively recreate the S&P 500 Index. However, the investor would be paying both managers an active management fee for a highly expensive (and likely underperforming) index fund.

In keeping with the example above, suppose you had the same $10 million invested at both firms, except they were both using a Large Cap Growth equity strategy. The same conflict would be in play that existed with the Growth and Value managers. However, this time, it would be within the same size and style category. In this scenario, either the managers would duplicate each other, or their differences would cancel each other out and just recreate the Large Cap Growth index, with a high active management fee.

Either outcome is suboptimal.

Using Multiple Firms

Separately, it seems that many UHNW investors believe they are reducing risk by dividing their assets between multiple firms. This is only true if the firms are banks or broker-dealers that speculate with their own balance sheets. These firms risk ruin by leveraging their balance sheets to make speculative investments. Indeed, this is what caused the collapse of Bear Stearns and Lehman Brothers.

Discount brokerages, such as Charles Schwab, have pristine balance sheets, unencumbered by proprietary investments that could sink the firm.

> *Bantam consolidates the exchange-traded assets of its clients at Charles Schwab. When there are family or other reasons that make complete consolidation impractical, we will serve as the chief investment officer for the client by implementing a top-down investment policy across all the assets, irrespective of where they are custodied.*

Conclusion

Hopefully, after reading this white paper you will have a basic understanding of the five problems that affect UHNW investor portfolios.

I've provided a one-page questionnaire (*see* Appendix A) that any investing layperson can complete in a few minutes. Use it to gauge the extent of your exposure to the five problems.

If you would like to take the next step in freeing yourself from Wall Street's high fees and self-inflicted complexity, please email me to schedule an appointment.

You can access our research here.

Appendix A

Top Five Ultra-High Net Worth Investor Problems Simple Self-evaluation Checklist

If you have read the white paper associated with this questionnaire, filling this out should only take a few minutes. If you have trouble answering these questions, then your portfolio is likely complex and has multiple problems.

Signs of Complexity

How many accounts do you have for each individual/entity?

How many individual positions do you have? (You can stop if it's 100+.)

How many third-party managed *products* do you own? (Usually these are in the account that your broker/ investment advisor manages herself.)

How big is your allocation to illiquid investments? (These are things like private equity, hedge funds, venture capital funds, and other direct investments. Usually these are structured as limited partnerships for which you receive a K-1 tax form each year.)

How many pages are your combined monthly statements?

How many prospectuses do you receive each month? (A prospectus describes a new investment, and is usually thick. This is different from a confirm, which is a one-page record of a transaction.)

Signs of Hidden Risks

How many of your investments use leverage?

How many of your investments are structured products?

Do any of your accounts use margin (i.e. borrow) to purchase investments?

Does your broker/advisor use options strategies?

Did any of your fixed income positions decline by more than five percent in the first quarter of 2020?

Signs of High Fees

What asset management fees are you paying? (Usually a percentage of assets.)

How much in commissions do you pay to transact?

What internal/underlying fees are you paying in the investment vehicles you own?

If you borrow against your investments, what is the interest rate?

Has your broker or advisor changed firms one or more times during your relationship?

Signs of Faux Diversification

What was the percentage decline of your combined investments in the first quarter of 2020? (If you were deep into double digits, you might not have much diversification.)

Did your combined equity holdings decline as much as the S&P 500 (-20 percent) in the first quarter of 2020?

Signs of Balkanization

How many different investment firms do you deal with? (Count each one at which you have a different representative or contact person.)

Do you have investments in the same asset class at different firms?

The higher the numbers in your responses, and the more "Yes" answers, the more problems you have.

Bantam's process results in simplified, but elegant, low-fee portfolios that preserve and grow wealth.

Contact CEO Jack Duval to free yourself from Wall Street bloat.

Access our research here.

Endnotes

1. Jack Duval; Complex Investments that Even Financial Advisors Don't Understand; February 11, 2014. Available at: http://blog.accelerant.biz/blog/complex-investments-that-even-stock-brokers-dont-understand; Accessed July 30, 2020.
2. This is a quote is widely attributed to Munger, but the origin is difficult to find. I'll give Munger the benefit of the doubt.
3. Securities and Exchange Commission; Release No. IC-24828; File No S7-11-97; Investment Company Names. Available at: https://www.sec.gov/rules/final/ic-24828.htm. Accessed July 24, 2020.
4. Securities and Exchange Commission; Release Nos. IC-33809; File No. S7-4-20; 7-9. Request for Comments on Fund Names. Available at: https://www.sec.gov/rules/other/2020/ic-33809.pdf; Accessed July 24, 2020.
5. I am not here suggesting that there is any fraud involved with the infrequent marking of investment values. Indeed, every bank or broker-dealer monthly statement I have seen explains the firm's protocols for marking investment values. Sometimes there is an additional explanation provided for individual investments. In most instances, the bank or broker-dealer is just reproducing values it receives from a third party, or if there are no values provided, just carrying the investment at cost.

   Clients should ask their broker or advisor how any illiquid investments will be marked.
6. Jack Duval; *An Ill Wind Blows Through Municipal Finance*; 2016; 32.
7. Source: Bloomberg.
8. Source: Bloomberg.
9. Seeking Alpha; What Turkeys Can Teach Us About Risk Management; November 18, 2015. Available at: https://seekingalpha.com/article/3694906-what-turkeys-can-teach-us-risk-management#:~:text=This%20example%20builds%20on%20an,can%20never%20be%20proven%20true.; Accessed July 29, 2020.
10. Jack Duval; Reducing Attorney Fees (Investment Fees, that is); April 3, 2018. Available at: https://www.bant.am/blog/reducing-attorney-fees-investment-fees; Accessed July 30, 2020.Accessed July 30, 2020.
11. Brokers are fond of telling their clients that the *issuer* pays the commission in an IPO, but that's just plain wrong. In a full commitment underwriting, the underwriter(s) buy all the stock, mark it up, and then resell it to the public. The markup is thus completely paid by the client. *See* Jack Duval; "IPO Churning – It Ain't What it Used to Be (And it Never Was)"; White Paper. Available at: https://cdn2.hubspot.net/hubfs/331372/White_Papers/Accelerant%20-%20IPO%20Churning.pdf; Accessed August 5, 2020.
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15. Source: Bloomberg.
16. Source: Bloomberg.
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