Wrapped vs. Non-Wrapped

Determining Suitability

Account types

A wrapped account is a type of advisory account where trading cost are included with the advisory fee the client is paying.

A non-wrapped account is a type of advisory account where the account is charged a fee for each transaction, buy and sell.

Some models are only available in a wrapped format. This is because the Firm has made the determination that a non-wrapped account would be cost prohibitive for a client.

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Which Account Type is Appropriate

As a fiduciary you have an obligation to your client to recommend the appropriate account type.

Items to consider

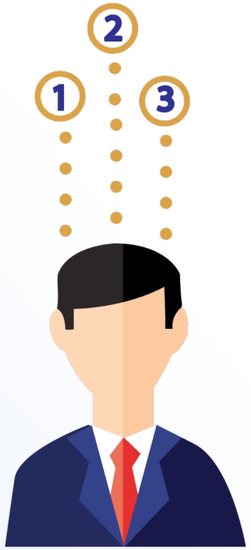
Frequency of deposits or withdrawals

- Each deposit will need to be allocated according to the selected model
- Each withdrawal will need to be funded by liquidating a proportion of the models holdings
- Each transaction may result in the client incurring a fee for the buys and sells

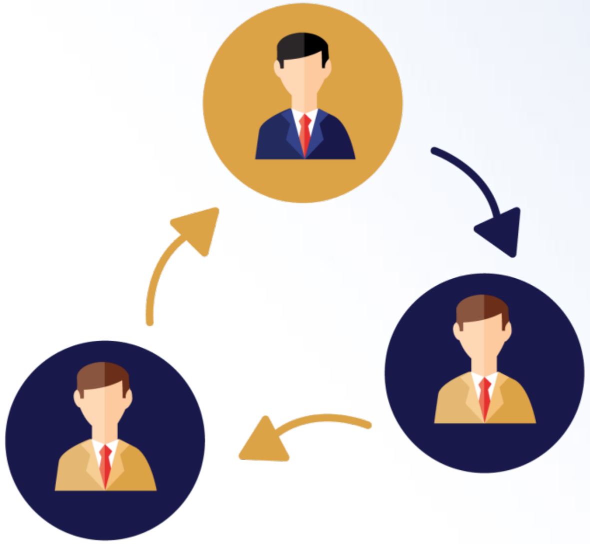
What Does a Trade Cost

- If a client has signed up to receive electronic statements and confirmations, $6.95 per equity trade $24 per mutual fund trade.
- If the client receives paper statements $16.95 per equity trade $34 per mutual fund trade.
- Some securities are on the no transaction fee list and there are no trading cost for these securities.

Items to consider



Number of holdings in the model



Frequency of model trading/turnover

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Examples of when a wrapped account may be suitable

- The client is making systematic deposits or withdrawals from the account
- The model has many holdings
- The model has frequent trading

Performing a review

To determine what account type is the most appropriate you should review the anticipated trading frequency and multiply that by the trade fee. If the projected trading fees are greater than the anticipated wrap fee, a wrapped account is most likely the appropriate account choice.

Example Solomon API 40/60

- This model consists of seven ETFs and a cash component.
- None of the ETFs qualify for free trading.
- The cost to establish this model is $48.65. Seven ETFs at $6.95 per trade.
- For a $10,000 portfolio this represents a 0.487% cost.
- For a $100,000 portfolio this represents a 0.0478% cost.
- The additional cost for a wrapped account is 0.10% annually.

Example Continued

- Rebalancing – Occurs when the portfolio either gets out of tolerance or on a set basis, such as quarterly.
- Reallocation – Occurs when the manager makes a change to the model.
- Both events can generate a transaction charge. One charge for the buy and one charge for the sell.

Example Continued

- In our example the Solomon model we looked at is a strategic model, which means it will rebalance each quarter.
- This means that there is the potential for an additional 32 trades a year for rebalancing, or $222.72 in potential expenses.
- From our previous example the trading expenses for a $10,000 portfolio in its first year could be 2.71% or $271.37 ($222.72+ $48.65). The $100,000 portfolio would have a cost potential of .0271%.
- Changes to the portfolio construction, reallocation, are not illustrated.

Impact of withdrawals

- When a withdrawal or distribution occurs each position is sold in a proportional manner raise the needed funds.
- Back to our previous example, there are seven equity positions so the cost would be $48.65.
- If a client was taking quarterly withdrawals from their account the 'cost' of the withdrawals could be $194.60.

Trade Cost

Account Value	Number of Annual Trades	Non Wrapped Cost at 1.85%	Trade Cost	Total Cost	Wrapped Cost at 1.95%
$100,000.00	20	$1,850.00	$97.30	$1,947.30	$1,950.00
$250,000.00	20	$4,625.00	$97.30	$4,722.30	$4,875.00
$1,000,000.00	20	$18,500.00	$97.30	$18,597.30	$19,500.00
$100,000.00	40	$1,850.00	$194.60	$2,044.60	$1,950.00
$250,000.00	40	$4,625.00	$194.60	$4,819.60	$4,875.00
$1,000,000.00	40	$18,500.00	$194.60	$18,694.60	$19,500.00

Questions