INVESTMENT
UPDATE

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WEALTH MANAGEMENT
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SPECIAL REGULATORY UPDATE: THE DOL RULE

A NOTE FROM JOE ROMANO

Now nearly six months into a Trump Presidency and given an ever widening political divide, one thing Americans on both sides of the aisle are likely to agree is that things so far have been anything but smooth. Recently, former FBI Director James Comey testified about his meeting with Trump and all things Russia. Despite the stakes, on that same day the Dow hit a new intraday high and stocks and bonds keep rolling. Similarly puzzling, with the roller coaster media blitz volatility as measured by the VIX is at a 10 year low. Go figure.

In our sandbox, the big news in the financial world is that Department of Labor's controversial "Fiduciary Rule" went into effect June 9 after a two month delay at President Trump's request. Doug Geisser gave a terrific summary of the rule in our winter letter, and with the rule now in place, I also wanted to share my own thoughts.

As a refresher, the rule states that anyone who provides investment advice to a retirement account is a "fiduciary" and is required to act in the sole interest of the client. The rule has three simple prongs. The advisor and the financial institution must give prudent advice that is in the customer's best interest, avoid misleading statements, and receive only reasonable compensation. So what's so controversial about that?

At its core nothing, but like so many things, the devil is in the details. This complex rule will have a marked impact on the way we and other investment firms interface with clients and is fraught with unintended consequences. Investor choice will be limited as many investments such as bonds below investment grade and taxable municipals are outright prohibited for retirement accounts, as are other types of investments. Fees will change as investment advice is likely to shift from commission based to asset based in an attempt to comply with the "level fee" provisions of the rule. Most importantly, some clients, probably smaller ones who need and value advice the most, will be forced to move into self-directed or no-advice accounts.

Let me emphasize that for all our clients, and I can say this with the utmost of confidence, we have always operated solely with what is right for the client foremost in mind. In addition, for our managed clients encompassing about 75% of our client relationships, we are already held to a formal fiduciary and best interest standard designed to identify and mitigate conflicts of interest.

Let me again pause and acknowledge that all businesses, ours being no exception, are for profit and inherently have conflicts of interest. But at the same time I must emphasize that our culture and business model is designed to best align our own interests with that of our clients. Our profits grow in tandem with your nest egg. Our money is co-invested with your money and you will find many of the same ideas we use in your portfolio in our own personal portfolios and our company profit sharing plan. We don't "sell" high fee products or outsource money to third party managers as is the norm today, resulting in another layer of hidden fees to the client. Simply put, our practice of "putting our money where our mouth is" mitigates so many of the abusive practices and conflicts in the investment world.

Unfortunately, the DOL rule is a lengthy, one size fits all, and complex regulation with no simple way to comply. Given the winds of the current regulatory environment, I believe we will see some of the most sweeping changes across the industry

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PROXY STATEMENTS: A VOTING GUIDE

Each Spring, investors are inundated as companies send out packets of information including their Annual Report and proxy voting statement to all shareholders. The proxy statement contains items up for vote at the annual meeting which must be approved by shareholders. We often field questions from our clients regarding proxy statements and how they should vote. In order to assist you, here are some very general guidelines addressing the most recurring proxy items, which may be helpful if you choose to vote.

Election of Directors

When choosing the board of directors, we believe the majority of a company's board should consist of independent directors.

Romano recommends voting in favor of proposals that insure independence, and generally votes with management recommendations.

Auditors

Given the size of the companies we typically invest in, we see little distinction as companies often use one of the "Big Four" accounting firms for their audits.

Romano recommends voting in favor of propositions which would limit fees paid to auditors for services unrelated to auditing to help minimize conflicts of interest.

Equity Based Compensation/Advisory Vote on Compensation

We recommend voting for compensation plans which align the interests of the shareholders with management, employees and directors. We typically see companies offer stock options, restricted shares and employee stock purchase plans as ways to compensate executives.

In 2011, the Securities and Exchange Commission adopted a new law requiring public companies subject to the federal proxy rule to offer shareholders a non-binding advisory vote on executive compensation. The goal is to help ensure that directors pay attention to the elements of compensation that matter most to investors: goals, metrics, philosophy and links to performance and business strategy.

Romano recommends voting against excessive rewards and these are the two areas where we are most likely to vote *against* management. We generally feel that executives and management teams of most large corporations are already well compensated.

Shareholder Rights

It is important for shareholders to effect corporate change to realize the full value of their investments if the results are not desirable.

Romano recommends voting against proposals for supermajority voting rights, adoption of poison pills, and against proposals for different classes of stock with different voting rights.

Social Responsibility Issues

We believe matters related to a company's day-to-day business operations are primarily the responsibility of management. However, we view issues related to social responsibility as a very personal matter.

Romano recommends voting in line with your own beliefs when it comes to this topic.

Ultimately, the option to vote is completely up to each individual shareholder. We view exercising your vote via the proxy process as an important shareholder right, though there is no requirement that you do so. We hope these guidelines assist you, but remind you the default option would be a vote in accordance with management.

If you have any questions regarding the proxy process or how to vote in the future, please contact your portfolio manager.

Scott Miller
Portfolio Manager

Did you know that you can save paper by having your proxy statement emailed to you or access a copy online? Contact your portfolio manager for more detail.

and at the firm in my now 22 years here. Ironically, in trying to always put clients first we have tried to tailor fees to individualized level of service and advice. In the context of "level fee" guidance that flexibility goes away to comply with the one size fits all aspects of the rule.

As is typical in Washington, certain aspects of the rule went into effect June 9 although the DOL has stated that it is still under review and may be further revised. This is the political equivalent of moving the goal posts, and we expect to know more by January 1 when the rest of the rule is to go into effect.

Until we know for certain, we have decided that it is in our clients' best interest to adhere to the rule while not altering our fee structure or business model, even in the absence of certain revenue streams. In the coming months expect updates about DOL and its impact, both good and bad, and to get our latest thoughts as we navigate an uncertain regulatory environment. As always, feel free to reach out to your portfolio manager, as well as Dick, Doug, or myself. Finally, as Doug stated last time, rest assured that our mission to provide the best service and advice possible for a fair and reasonable fee remains intact.

Joe Romano
PRESIDENT

RWM OFFERS INVESTMENT FUNDAMENTALS CLASS!

Back by popular demand, we are once again offering to you, a friend, or someone in your family our Investment Fundamentals class taught at the New Trier Extension. We've negotiated a special low course fee of $40 per person with New Trier Extension (regular price $96). **What's more, we'll pay the discounted class fee to NTX for our managed clients *and* all client referrals!** So, if you would like to know more about financial markets and investments this would be a great class for you and a friend to attend.

This course is perfect for Romano Wealth Management clients, as we use our own actual documents as examples of how to read a confirmation, monthly statement, or performance report. It will give you greater insight into our investment philosophy and methodology, as well as ample opportunity to ask your own questions. It will also give you a better understanding of your own portfolio, as we'll study specific examples of investments, many of which are likely to be contained in your own account.

The class consists of four 90 minute sessions, Wednesdays, October 18 through November 8, 2017 from 7:00 p.m. to 8:30 p.m.

Like us on facebook

themusicaloffering

FACEBOOK CHARITABLE CAMPAIGN: THE MUSICAL OFFERING

Donate $5 of RWM's money to the Musical Offering, just by clicking 'Like'!

Romano Wealth Management is hosting a facebook campaign to gain more page likes starting June 1, with all proceeds going directly to The Musical Offering, a non-profit music school meeting the needs of a diverse community through music study, performance, and partnerships! The Musical Offering currently provides annual scholarships to 15–20 at-risk elementary and middle school students from the Evanston/Rogers Park neighborhoods and with your help, Romano Wealth can help provide even more! Tell your family, friends, and neighbors to search for Romano Wealth Management on Facebook and hit the 'Like' button at the top to donate $5 of our money to a great cause. It's that easy!

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Member FINRA/SIPC

1560 SHERMAN AVENUE
SUITE 1300
EVANSTON, IL 60201

OFFICE 847 866 7700
FAX 847 866 7054

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ROMANO NEWS

Romano's New Arrival!

Please help us in welcoming our newest addition to the Romano Wealth team, portfolio manager **Osman Arain!** Osman is a dynamic investment expert and accomplished leader with over 17 years of experience successfully impacting the investment results and client relationships of organizations of all sizes. He received his BA in Economics from Dartmouth College and MBA in Finance from Columbia Business School. Osman had earned the Chartered Financial Analyst designation and has his Series 7, 63, and 65 licenses. He currently lives in Bolingbrook with his wife and children and enjoys running, golfing, and reading in his free time. Welcome to the team, Osman!