Be Smart About Selecting a Financial Advisor

Choosing the advisor that is right for you

Brightworth®

Be Smart About Selecting a Financial Advisor

Choosing the advisor that is right for you

Annika Cushnie, CFP®, CIMA®
Partner | Wealth Advisor

As the saying goes, "When times are good, anyone can make money." In the tenth year of the bull market following the Great Recession, markets are at or near all-time highs, but recent volatility has some investors uncertain on where the markets will go from here. Many are re-evaluating their relationship with their financial advisor to ensure that they are in good hands.

At a time like this, some "do-it-yourselfers" may realize that they also want help. But how will you know if you are receiving good advice? Partnering with an advisor to guide you through the complexities of your financial strategy is an important decision that should not be taken lightly. Advisors differ greatly in terms of qualifications, compensation, and conflicts of interest. Also critical are the investment process and performance which are the cornerstone of your financial strategy and key to your long-term success.

Qualifications

The financial services industry is diverse, and there are "advisors" from many types of firms – registered investment advisory firms (RIAs), banks, brokerage firms, insurance companies, CPA firms, etc. - who are in the business of helping people with their finances. While competent professionals may be found in any of these environments, the scope of services varies widely, and it is important that the background and experience level of the advisor match the services being provided.

Services may range from the purchase of investment products (such as a stock, bond, mutual fund, annuity, or insurance policy) to comprehensive financial planning and fee-only investment management. Start by viewing a bio on the advisor's website (or request one directly) to review the advisor's educational background and years of experience. While there are many designations in the financial industry, some highly respected designations are the CERTIFIED FINANCIAL PLANNER™ (CFP ®) for financial planners, Chartered Financial Analyst (CFA) and Certified Investment Management Analyst (CIMA®) for investment managers, and the Chartered Life Underwriter (CLU) for life insurance specialists.

There are services available online that help consumers learn more about financial advisors. FINRA has a Broker Check system (brokercheck.finra.org) which allows viewers to see where an advisor is registered and to view licenses, examinations, work history, criminal record, and regulatory background. For advisors of RIA firms (which includes fee firms), use the SEC's Investment Advisor Public Disclosure website (adviserinfo.sec.gov) to view the firm's ADV Part 1, which includes an overview of the firm and information on fees and disciplinary history of the firm and its advisors. Be sure to also request a copy of the ADV Part 2 from the firm to review the advisor's background such as education, licenses, designations, and other credentials. You may also consider asking the advisor for existing client references to learn more about the level of satisfaction, the customer experience, and how the advisor communicates with clients.

Compensation

Getting a clear picture of how an advisor gets paid is a critical part of the due diligence process. On one end of the spectrum, some advisors receive a commission when an investment or insurance product is sold. On the other end, "fee-only" advisors may be paid a stated fee (flat rate, hourly rate, or a percentage of assets under management) by their clients in exchange for services.

A huge middle ground also exists between these two models called "fee-based" compensation. Fee- based advisors have the ability to accept both stated fees and commissions, so steering through the formal relationship to understand which capacity the advisor is serving under is often confusing. Regardless of the method, it is important to know what you are paying, so be sure to ask the advisor for a detailed listing of commissions for each product or a fee schedule in writing.

Conflicts of Interest

Another key point to understand is how incentives are aligned for an advisor so that you can properly evaluate any potential conflicts of interest. One such example is with the recommendation of investment or insurance products. Some firms create proprietary products which they offer to clients, while firms with an "open architecture" have the ability to offer products created by another firm in addition to their own proprietary products (if they have them). Investments can vary widely with different characteristics such as structure, investment style, expenses, and performance, but some advisors are paid a higher commission to sell the proprietary investment products of their own firm. Other considerations include who else might be getting paid, as there are sometimes monetary kickbacks from referrals, money managers, or clearing houses where trades are placed. (Brightworth is a fee-only firm and receives no compensation from third party money managers or clearing houses.)

Investment Process and Performance

Your investment portfolio is the cornerstone of your financial strategy, and your advisor's investment philosophy and process will be a major determinant of its success. You will also need the proper accountability and reporting to maintain trust in your advisor over time. The following are some questions worth asking:

Philosophy

- Does your investment approach depend upon market timing, trading strategies, or do you believe in buy-and-hold long-term investing?
- Do you take a passive or active approach to investing? Passive investors believe the markets are efficient and invest in broad market indexes, while active managers attempt to find opportunities they believe will have higher returns than the indexes.
- What is your investment strategy, and how does it drive the strategic and tactical asset allocation of the portfolio?

Process

- How would my asset allocation and investment mix be determined? Make sure that financial goals, investment risk tolerance, time horizon, and tax situation are discussed before the funds are invested.
- Will you articulate the investment objectives for my portfolio in writing (usually in the form of an Investment Policy Statement)?
- Where are the funds custodied? Be sure that the proper checks and balances are in place and that you never transfer assets to someone other than an independent third-party custodian such as Charles Schwab or Fidelity. Make sure that you receive a periodic statement directly from the custodian.
- How are investment decisions made? Do you make decisions on your own, or is there a team that makes investment decisions?
- What is the process for ongoing monitoring and adjustments to the portfolio as market conditions change?
- How will the management of my portfolio change when I start taking withdrawals?
- How often are the portfolios rebalanced?

Investment Performance and Accountability

Consistent investment performance over the long term is key to achieving your financial objectives. To evaluate the advisor's ability to navigate the markets, ask for a track record of performance which includes data from "up markets" and "down markets". With advisors who have very different portfolios for each client, this may be difficult to provide. However, you should be able to get an estimate of the performance of an investor who has a situation that is similar to yours. Some firms have the framework to provide consistent investment strategies which can be applied to client situations. In this case, request a copy of the performance for the "representative accounts."

Once you engage an advisor, it is important that there is total disclosure and accountability. Make sure that you receive regular and timely performance data for your investment portfolio on an ongoing basis so that you know how your portfolio has done as compared to relevant indices. It is important that the performance data is shown net of investment management fees and is "time-weighted," which reflects the true performance of the investments and is not skewed by the timing of deposits and withdrawals into the portfolio. If your returns are unrealistically consistent year after year as market conditions change, take note because this could be a red flag for fraud.

Long-term Approach

It may take many years to fully capture the rewards of a solid long-term financial planning and investment strategy. However, while a financial strategy continues to evolve over time as factors such as client situations, markets, and tax laws change, it is very important to have a consistent strategy in place. A relationship with an advisor is intended to be long term, and it is important that you find a trustworthy individual to partner with for many years. When evaluating your situation, take into account the stability of the firm and the advisor's longevity with the firm. With smaller independent firms, be sure to inquire as to whether or not they have a business succession plan in place. For many, it is important to know that there will be someone who knows you and your situation and can help your family over the long term.

The decision to work with an advisor should not be taken lightly, and there are many factors that should be considered in the due diligence process. In the end, however, successful relationships must be built on trust, which is the primary element that you must decide for yourself.

Who Is Brightworth?

Brightworth is a nationally recognized, fee-only wealth management firm with offices in Atlanta, GA and Charlotte, NC. The wealth advisors at Brightworth have deep expertise across the financial disciplines, allowing us to provide ongoing, comprehensive financial advice to families across the country.

This information is provided as a guide to assist you in your financial planning. The examples are provided for illustrative purposes only and are not intended to be specific financial planning recommendations or tax advice. Please consult with a professional for specific questions regarding your particular situation.

© 2020 Brightworth. All Rights Reserved.

Annika Cushnie
404 760 9000
annika.cushnie@brightworth.com