

# Quality Asset Management

*Grow Your Wealth with Peace of Mind*

## Who is on Your Side?

*By Gil Hanoach, February 7, 2007*

Whether you are looking for someone to manage your life's savings, or you already have someone, you want them to always have your interests in mind. You cannot afford to question the professional's interests and you need to have full trust that the person is on your side.

If this foundation does not exist, you will not only lose sleep worrying that your money is in the wrong hands, you will also question every recommendation given to you. This is a practical concern, because you may decide not to follow the professional's advice at the most critical times. If you do decide to follow the advice, you cannot be sure who the advice is helping more: you or your advisor. For example, if you have a losing investment, the decision about whether to hold onto the investment or sell it hoping for a better alternative can have a large impact on your finances. You cannot afford to question the advice given to you.

There are many titles for professionals providing investment advice. Two main ones include broker and investment advisor. Let's review their obligation to you:

**Broker:** Brokers are legally required to offer suitable investments. This seems like a good requirement, but the law gives them significant freedom to:

1. Not disclose fees.
2. Not disclose conflicts of interest.
3. Not get you the lowest cost trades and products.

Brokers can do your trades expensively in order to increase their employer's revenue or their own income. They can (and often do) sell expensive mutual funds offered by their employer to their clients. These can cost you too much money and have poor returns. Your broker may even steer you towards expensive products that have well hidden fees, including individual bonds.

Brokers are compensated directly by their employers, not by you. As a result, they have in the first place their employer's interest in mind when giving you advice. Many are good and intelligent people, but they may be pressured by their employer to sell you products that maximize the company's revenue.

A common compensation arrangement requires that you pay a commission for transactions. This creates a potential for a conflict of interest that is difficult to resolve – the only way for such a broker to earn a living is to get your commissions, but it is usually in your best interest to minimize the number of transactions done in your account.

The Securities and Exchange Commission (SEC) requires that your broker provide you with the following written disclosure: "Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours." Please consider the implications.

**Investment Advisor:** Registered Investment Advisors (RIAs) are legally obligated to act as fiduciaries. They have to provide objective financial advice and to put your interests before their interests. They are legally obligated to disclose their fees and any conflict of interest they may have. They also should get you the lowest cost trades, unless it is not in your best interest.

You may prefer to work with **Independent Fee-Only Advisors** – advisors that only charge a fee for service and report only to you. Specifically, they do not charge commissions for selling you products. This can help ensure that they make money when they make you money, not when they trade, ensuring that they get paid for helping you.

Registered Investment Advisors are obligated to provide the SEC (Securities and Exchange Commission) an annual update with information about their business. They file a form called “ADV” – a form that you should have seen before if you are working with an investment advisor. You are encouraged to review it.

There are many other titles out there. The following one is important to note:

**Financial Advisor:** A title commonly used by brokers, giving the impression that they are professionals who provide you with financial advice. Unfortunately, brokers and other salespersons are legally allowed to use this title, despite the fact that their first obligation is to their employer and not to you.

**Wealth Manager, Private Client Specialist...:** There are many more titles in use. Whatever the title is, make sure to ask: “Do you have a legal obligation to act in my best interests?” Some of them do, some don’t – the titles don’t help answer this question.

**Notes:**

1. Making sure that your advisor is legally obligated to be on your side is only the first step in the evaluation. There are many other conditions you should set before you let people advise you regarding your life’s savings. You should have a strong sense of trust and comfort with their knowledge. They should be upfront and open about all questions regarding their business, their investment principles and all possible costs to you. They should have time to talk to you and explain things in simple words. You should be very selective when dealing with such an important topic.
2. This article is not intended to provide comprehensive advice regarding selection of advisors – it only touches on a few important issues.

**To Summarize**

You should ask all people that provide you with financial advice: “Do you have a legal obligation to act in my best interests?” If the answer is no, you should be very careful when following any of the person’s advice and consider hiring someone who is legally obligated to always be on your side.

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