

# Money Matters

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## Skloff Financial Group Question of the Month

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**Q: Q: We are considering changing investment firms. What are the major criteria when evaluating investment firms, their services and their Financial Advisors?**

### **The Problem – Choosing the Right Financial Advisor at the Right Firm**

A recent Google search for the words “Financial Advisor” lists almost 3.5 million results. They all seem the same, with one name fancier than the next. Their services range from stock brokerage to insurance and from financial planning to wealth management. With so many firms to choose from, investors can easily make a wrong decision, which they may regret for the rest of their lives.

### **The Solution — A Little Due Diligence Goes a Long Way**

Choosing the right financial advisor at the right firm is similar to selecting the right surgeon at the right hospital, but with a couple twists. Every investor needs to understand the different types of investment firms before they can make an educated decision. Let’s start with the largest firms in the industry. These are the firms we see advertising during events like the Super Bowl. Please pay attention to the upcoming twist. These firms are publicly traded companies that trade on the stock exchange like any other stock. And, like any other stock, the Board of Directors must act in the best interest of shareholders – not clients of the firm. Many of the smaller sized firms are not publicly traded and can act in the best interest of their clients – not their shareholders. Finding out if the investment firm you are considering is a publicly traded company is as easy as looking it up online or calling the firm directly.

**Understanding the Firm’s Registration is Critical.** Fiduciary duty is the highest level of duty an investment firm can exercise. When accepting fiduciary duty an investment firm must, by law, act in the best interest of its clients – above and beyond those of its shareholders or employees. All investment firms must register with security regulators. Most of the large investment firms register as a broker dealer, avoiding the obligation of fiduciary duty in the process. If a firm registers as a Registered Investment Advisor (RIA) they are obligated by law to accept fiduciary duty. Here comes another twist. Some investment firms register as an RIA, but claim those aspects of their business are ancillary to their practice – mitigating their responsibility in the process.

**If you can only remember one thing from this article, here it is: If you want the investment firm you are dealing with to place your interests above and beyond their interests, have them clearly accept fiduciary in writing on their company letterhead. Have them clearly state they will place your interests before any other party, including the shareholders of the investment firm.**

**Understanding the Firm’s Services is Critical.** Many of the larger firms imply they provide independent financial planning and investment management services. In reality, their financial plans are “free” reports designed to lure you into their proprietary products or investments that provide the firms an extra financial incentive. No doubt, there is some disclosure buried somewhere in the documents explaining all the conflicts, but most people do not have the time to search for them. Many of the middle and smaller sized firms imply they provide independent financial planning and investment management services. In reality, they are insurance salespeople trying to sell as much insurance (i.e.: commission based variable annuities or commissioned based fixed index annuities) as you can afford, and then some. One good litmus test is to find an investment firm that does not have their own investment products.

**The Financial Advisor’s Background is the Most Critical Aspect of Your Evaluation.** When speaking with a Financial Advisor, consider it an interview. The reality is you are hiring them for the most important part of your life... well, at least your financial life. Some important questions to ask include: Where did you go to college or graduate school? What degrees do you have? What licenses and certifications do you have? How long have you been in the industry? Ideally, your Financial Advisor should have a strong academic background, carry the appropriate licenses for your needs and have good experience. One designation stands out in the investment management industry – the coveted Chartered Financial Analyst (CFA), a program based on a series of progressively more difficult exams.

### **Conclusions**

Selecting the right investment firm and Financial Advisor is a critical decision. Utilizing the criteria discussed in this article can turn a difficult task into one of ease. When evaluating a new investment firm and Financial Advisor be sure they can provide the level of service and fiduciary duty you deserve.

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