The Benefits of Choosing the Right Advisor

Published August 10, 2020 - While not everyone is a world class athlete, we can all take notes on their habits. Much like athletes rely on the structured and diligent approach provided by their trainers, we can benefit by disciplined approaches to our own set of objectives. One can look at a financial advisor the same way they look at a coach. Both provide the plan and strategy to reach and perhaps exceed their goals. Sports stars turn to their trusted trainer, an investor turns to their trusted advisor. Seeking advice from a financial advisor is consistently the best way for people to create, grow, and protect their wealth.

Dopkins Wealth Advisors Ryan Smith and Patrick Bohen recently discussed the topic of registered investment advisors (RIA) via a virtual meeting. Their conversation included the importance of choosing a financial advisor and best practices to look for the right one. We've provided a summary of their conversation:

Understanding RIAs

Before we discuss the benefits of an RIA, it is beneficial to fully understand what an RIA is. Both state and federally registered investment advisors are held to a fiduciary standard. This is in contrast to the suitability standard imposed on broker dealers. The fiduciary standard dictates that an RIA must always put their client's best interests ahead of his or her own, no matter all of the other circumstances.

In addition to this, an RIA is paid much like a mutual fund manager: most RIAs earn their revenue through a management fee which calculated using the percent fee by the assets under management (AUM). Generally, the more assets a client has, the lower the fee he or she can negotiate. This aligns the goals of the client with those of the RIA, the advisor will act in the best interest of the client for the account value to grow and the advisor cannot generate more revenue on the account unless the AUM increases. This exemplifies that an RIA truly earns their fee.

Once an RIA registers with the Securities Exchange Commission (SEC), the advisory firm must follow many practices and procedures when servicing the client. One such policy is that the firm must disclose any risks and conflicts of interest of transactions, and to make sure the client fully understands them. One benefit of working with an RIA, it is up to the advisor to demonstrate why the investment choice was made.

Benefits of an RIA / the "right" advisor

Indeed, there is a multitude of benefits to consulting a financial advisor. The first pro is that the advisor can help get the client on the right track with their wealth management. Also, like we experienced recently, the advisor can help navigate the complexities of the market and the investment choices. There is much more to the right financial advisor than making trades and moving money, the right advisor is there for coaching, expertise, and discipline. The advisor is also there for major financial occurrences; loans, education saving, retirement planning, for starters.

One of the key advantages of working with a financial advisor is their knowledge of the industry, market, and investments. There is extreme value and benefit of working with someone who is living and breathing their profession. Much like any other professional, the expertise that is demonstrated day in and day out from a financial advisor is their biggest strength. An example of this is that they will be working with complex investment instruments, which they understand how best these options can be built into a portfolio and produce an optimal approach for the best results.

Furthermore, financial advisors can provide clients with the emotional discipline needed to put their plans into actions and even more importantly, stick to them, as well as provide the assurance, direction, steadiness and support to ensure they remain on the right path to reach their goals. Many people needed this coaching just a few months ago and to have a financial advisor in your corner could help during the uncertainty of COVID-19, and any future swings in the market.

Now when moving into the selection process of an advisor, first, individuals should consider an RIA rather than a restricted financial advisor. By being independent, registered investment advisors have no restrictions on the investments and services they can provide which means the client has much more to gain from the relationship. The client will have access to the whole of the market.

Second, clients should undoubtedly know their advisor will be the main point of contact for them and therefore will play the most active role in all decision making regarding their finances. RIAs have the fiduciary duty of serving their client, so this ensures the advisor will be the main point of contact. An RIA cannot pass along decision making duties because it is up to that advisor to help with the decision.

Third, it is prudent for clients to choose a firm that has been in business for at least five years. This will give any prospect an accurate view of the organization's quality of advice and service. Additionally, clients should find out the value of the company's assets under management. Industry wide, a trusted benchmark would be for an organization that is managing assets in excess of $500 million, this would suggest they have proven their weight in the industry, highlight their share of the market and show a strong organizational structure.

Fourth, full disclosure between advisor and client is supreme. From the beginning, financial advisors should be completely transparent when it comes to fees, services, and levels of protection. Furthermore, the information provided to the client should in no way be unclear, vague or obscure to the client. The benefit of the RIA is that the advisors are regulated directly by the Securities and Exchange Commission (SEC). Documentation is everything, from the perspective of the SEC. An RIA must possess full documentation on the investment strategy used, along with client records that demonstrate knowledge of the client's investment profile and risk tolerance. This protects the client even more, as they are not liable, the advisor would be.

Indeed, choosing the right financial advisor to assist in reaching long-term financial objectives is one of the most important decisions to make. After all, finances are far too important to make costly mistakes. It's important that individuals don't shy away from asking the awkward questions, and that they choose an independent financial advisor who is part of a robust firm: someone who has the relevant experience and knowledge needed to reach, perhaps even exceed, their financial objectives.

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