

# Investors Turn to Independent Financial Advisers

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In the aftermath of the financial-market crisis, investors are leaving Wall Street to sign on with independent investment advisers.

Last year, registered investment advisers brought in more than \$108 billion of net new assets into the three largest custodians, according to Charles Schwab Corp., which holds roughly \$500 billion in assets for such advisers. By contrast, the four major Wall Street brokerage firms saw an outflow of \$8 billion in 2008.

Investors seeking to repair their damaged nest eggs say the chief lure of independent advisers is more-objective guidance.

Connie Ashline of Kankakee, Ill., decided to follow her adviser from Smith Barney, Dorie Rosenband, when the New Yorker started her own firm in March. "I feel that by my paying her as an independent adviser, she would be in a greater position to take my best interests at heart," says Ms. Ashline, 75 years old.

"The reality is that the brokerage firms are set up for the brokerage of products," says Ms. Rosenband. And even though brokers' titles may have changed over the years to "financial advisers and consultants," she says the culture at the firms hasn't. As a result, clients were often confused about what they were getting, she says, adding that she brought over about 20% of her clients, mainly those who were primarily interested in a long-term approach.

For those who aren't following their trusted adviser, though, hiring an independent isn't nearly as simple as it sounds.

That's because the independent world is diverse — encompassing everyone from the solo practitioner specializing in financial planning to firms that manage millions and offer an array of services, including financial, tax and estate planning. To further complicate matters, while more advisers are hanging out their own shingles, a growing number are simultaneously affiliating with independent brokerages, such as LPL Financial and Raymond James Financial Services Inc. In return for a small cut, these firms provide advisers with technological and administrative support.

Moreover, while most independents call themselves "advisers," they aren't all required to adhere to the same fiduciary standards. As a result, the degree to which each must put a client's interests before his or her own can vary. The upshot, says Marilyn Dimitroff, chairwoman of the board of directors of Certified Financial Planner Board of Standards Inc., is that "the public is so confused."

To hire an independent who suits your needs, you should consider how much you have to invest, how much you can afford to pay and whether you want someone to oversee your entire financial life, or just pieces of it. It's also important to probe the potential conflicts of interest your adviser may face. "Every single form of compensation has built-in conflicts of interest," said Richard Salmen, a fee-only adviser who is also president of the Financial Planning Association. "The only thing you can do is to make sure any potential conflicts are fully disclosed and fairly managed."

Here are some questions to consider:

**What type of adviser do you need?** As with their counterparts on Wall Street, independent advisers come in two basic flavors: brokers, who typically focus on investment advice, and registered investment advisers, or RIAs, who may help you with everything from saving for college and retirement to tax and estate planning.

A growing number are "dually registered." As such, they are registered with both securities regulators as RIAs and the Financial Industry Regulatory Authority Inc. as brokers — and can act in both capacities.

**How much do you want to spend?** One major difference between brokers and RIAs is the way they are compensated. Brokers often charge commissions. RIAs typically levy fees — often 1% to 2% of a client's annual account balance. (Some instead charge hourly or one-time fees for specific projects.)

Investors who trade infrequently and don't need a lot of hand-holding may be better off with a broker. According to Tiburon Strategic Advisors, investors in commission-based accounts at full-service brokerage firms pay an average of 0.72% of assets each year — or slightly less than the 0.76% those with RIA fee accounts pay.

**What are the potential conflicts of interest?** Brokers' income depends on commissions from client trading. As a result, they have a financial incentive to steer clients to products that pay them the most, such as variable annuities or mutual funds with high

sales “loads.”

But whereas Wall Street brokers' payouts may vary depending on the products they sell, those affiliated with independent brokerage firms generally have fewer reasons to push one product over another. For example, the percentage of a commission advisers get for selling one particular mutual fund is generally identical to what they'd receive for selling another.

Still, many independent brokerage firms receive so-called revenue-sharing payments from mutual-fund and other financial-services companies. In return for making such payments, fund companies may be given opportunities to promote their products to a firm's advisers.

Investors wary of such potential conflicts may want to consider an RIA. RIAs not only generally refrain from accepting commissions but are held to a higher “fiduciary” standard — a legal requirement that they act in clients' best interests. Brokers follow looser “suitability” guidelines, which means they can't put clients in inappropriate investments. (A recent Obama administration proposal would require brokers to operate under the higher fiduciary standard.)

Investors who retain “dually registered” advisers should be aware that they can operate under a suitability standard when selling products, but under a fiduciary standard when doling out advice. When shifting roles, advisers are required to disclose potential conflicts of interest to clients, says Dale Brown, CEO of the Financial Services Institute Inc., a trade group for independent brokerage firms and independent financial advisers.

Even RIAs aren't immune to potential conflicts. Because those who charge a percentage of an account's value earn more as the balance rises, they have an incentive to keep the money invested, rather than recommend that it be used for other purposes, such as paying down debt. “If a client asks whether to pay off a mortgage, I have a conflict,” says Drew Tignanelli, a fee-only planner and principal at the Financial Consulate in Hunt Valley, Md.” But as a fiduciary, I have no choice but to discuss the pros and cons of such a move.”

**How much money do you want to invest?** Many RIAs cater to those with \$250,000 or more to invest. But people with less can still work with an RIA. Sheryl Garrett, whose Garrett Planning Network Inc., based in Shawnee Mission, Kan., consists of more than 300 RIAs charging hourly fees of up to \$240, often recommends hiring a planner by the hour or for a one-time “project” fee to create a financial plan. But to purchase the investments needed to implement their plans, she often steers clients to discount brokerage firms.

Those who prefer more hand-holding may benefit from an RIA affiliated with an independent brokerage firm, says Deena Katz, an associate professor of personal financial planning at Texas Tech University. Such advisers — who are often paid through a combination of a one-time fee for advice and commissions for making trades — often agree to work on an ongoing basis with clients with relatively small sums to invest.

**What are the adviser's credentials?** To find an adviser with specific skills, look for certain credentials. Those seeking someone with expertise in financial planning, for example, have a couple of choices. A Certified Financial Planner must complete courses in investments, taxation, estate planning and insurance. They also must pass a two-day exam, have at least three years of experience, and comply with ethical standards that require them to put a client's interests ahead of their own. Alternative credentials include the Personal Financial Specialist designation that many certified public accountants earn, and the Chartered Financial Consultant, says Ms. Katz.

Make appointments with a few candidates. Many charge nothing for an initial meeting. Then, check your pick's disciplinary history. For an RIA, you'll need to look up Form ADV, which is kept on file with your state's securities department or the Securities and Exchange Commission, depending on how much money the adviser manages. Brokers' records can be accessed via your state securities regulator. Records for brokers currently in business or who have left the field in the past two years can be obtained at [BrokerCheck.finra.org](http://BrokerCheck.finra.org).