Is a Brand-Name or an Independent Advisor Best for You?

It's easy to think that a brand name buys you safety. But are you safe in the hands of financial advisors?

Did you know?

If you hire a brand-name advisor, they are most likely accountable to the shareholders of their company. That means they need to focus on generating profits. So they may put the company's interests in front of yours. In fact, it's perfectly legal.

Is that common?

Is it common for brand-name advisors to put the company's interests in front of yours? Unfortunately, yes. According to a report by a white house task force, "conflicted advice" costs American taxpayers about $17 billion per year.[1] Yes, that's billions with a "b."

This *conflicted advice* occurs when an advisor recommends a product that pays him or her more in commission, even though a lower-cost option exists.

What happens if I get sold higher-cost products?

The more you get charged in costs and fees, the less money you have working for you. Over time, fees compound and can result in significantly less available to you at retirement.

Is this legal?

Sadly, yes. If the company is organized as a broker-dealer, their employees don't have a high bar when it comes to giving you advice. Unless they are helping you with retirement accounts, they don't have to put your interests in front of theirs. They simply have to recommend something "suitable," even if it means you might end up paying more when a cheaper product exists.

Wasn't the law changed regarding this?

Yes and no. Yes, there was a law change requiring advisors who help you with retirement accounts to provide some level of fiduciary service. Unfortunately that law was put on hold, and just recently was successfully challenged in court, so its future is uncertain.

Do I have a choice?

Yes. You can usually avoid this situation by hiring an independent Registered Investment Advisor firm. While they won't have the fancy brand name, they are legally required to act as your fiduciary — meaning they have to put your interests first.

Isn't it riskier to give my money over to a small firm?

Independent Registered Investment Advisors don't hold your money; they simply help you manage it. They partner with large independent custodians (banks) who hold your actual funds and investments. This provides a benefit to you: you get another layer of protection.

Does this protect me from all potential problems?

Unfortunately, there's no way to assure you'll never have a problem, but by hiring a fiduciary, there's one big advantage: you have legal recourse. A fiduciary who didn't put your interests first would be at risk.

And independent firms are usually smaller firms. Their futures are dependent on keeping their clients happy. This helps ensure you get attentive service along with fiduciary advice.

With big brands, their advertising usually helps attract a steady stream of new prospects, so they are not as dependent on you being happy with their services. There's always someone else walking in the door.

What else can an independent advisor do for me?

- **Advice, not sales.** Independent advisors are in the business of providing advice, not selling. They don't have sales quotas to push certain products. Instead, they are free to find you the best solution and help you with all aspects of your financial life.
- **Lower-expense products.** Investment expenses matter to your future. The more you pay in expenses each year, the less money you have working for you. With compounding, higher-expense products can dramatically reduce what you will have left at retirement. Independent Registered Investment Advisors have a fiduciary duty to select investments with reasonable expenses.
- **Paid by fees, not commissions.** Independent Registered Investment Advisors are paid directly by you through fees. This fee structure is usually simple and easy to understand, since that's how you likely pay your other professionals (e.g., accountants and lawyers).
- **Interests aligned with yours.** Most independent advisors' fees are a percentage of your account balance, so the advisor is usually incentivized to grow your accounts. They only make more money when you do.

UNDERSTAND THE DIFFERENCE!

✓ Look for a firm that is a **Registered Investment Advisor.**

✓ That firm should not be affiliated with any large Wall Street firm.

✓ That firm should agree in writing to act as your fiduciary.

Conflicts of interest are far too common on Wall Street, costing unsuspecting Americans billions every year. [1]

You can help minimize these potential conflicts by choosing an Independent Registered Investment Advisor instead of a brand-name firm.

[1] The Effects of Conflicted Investment Advice on Retirement Savings, Feb. 2015, Council of Economic Advisors, https://obamawhitehouse.archives.gov/sites/default/files/docs/cea_coi_report_final.pdf.

RCS
Financial Planning

RCS Financial Planning, LLC is an SEC registered investment adviser located in Annapolis, Maryland.