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WEALTH MANAGEMENT

When to Hire and Fire a Financial Advisor

It may seem self-serving to write an article on why and how to hire a financial advisor. However, three things compelled me to write about this topic today.

First, I realized that three of the last four clients who hired my firm already had multiple financial advisors (an average of three advisors each). All these clients left all their other advisors because they wanted a single advisor who would be responsible for their entire financial picture and could develop a comprehensive plan. Having multiple advisors may seem like a way to "diversify" so you can benefit from multiple perspectives. However, it usually turns into a mess.

There's rarely any coordination between multiple advisors, and no one takes ownership of the client's overall financial wellbeing. In the aforementioned cases, there were missed opportunities all over the place, including annuities with lifetime income riders that should have been triggered years ago, life insurance policies that were unnecessary or needed to be reconfigured, and incompatible and inefficient investment strategies. Just like you wouldn't hire multiple CPAs or multiple estate planning attorneys, you only need one financial advisor. This makes it even more important to hire the right one.

The second thing that compelled me to write this article was a review that my book received this week on Amazon. It was written by an estate planning attorney who wrote: "I appreciate the advice given by the authors in the 'Working with a Financial Advisor' chapter. Anyone considering hiring a financial advisor would definitely benefit by reading and following the advice in that chapter."

I thought it interesting that this estate planning attorney thought that was the most important chapter in the book. The chapter is too long to repeat in its entirety here, but you can either buy the book or email me and I'll send you a copy of the chapter. It includes my insights on: What a good financial advisor will do for you, how advisors get paid, how to measure performance, when to fire an advisor, and 12 questions to ask when interviewing advisors.

The third thing that happened this week was I came across an infographic on the financial advisory industry, which had lots of great info, such as:

- The more money you have, the more likely you are to seek the advice of a financial advisor. In fact, 81% of people with over $5 million in assets use a financial advisor.

- The percentage of Americans using financial advisors doubled between 2010 and 2015.
- Although more people are hiring financial advisors, consumers have become increasingly distrustful of advisors. This is due to increased media attention on the conflicts of interest in many advisory relationships.
- There are approximately 310,000 financial advisors nationwide, of which 90% are brokers or registered reps, primarily compensated through commissions. This means they may have a conflict of interest since some financial products pay the broker more than others. Furthermore, brokers are only held to a "suitability standard," which means the investments only need to be suitable, but not necessarily the *best* investment for the client.
- The less conflicted financial advisors are called Registered Investment Advisors. Only 10% of financial advisors are licensed this way. RIAs are held to a "fiduciary standard," meaning they are required by law to do what is best for their clients. RIAs charge a percentage of the assets they manage or a flat fee. This way they do not have an incentive to use one type of investment over another.
- A recent Vanguard study estimated that a financial advisor can add about 3.75% in value to investment returns per year through a combination of asset allocation, rebalancing, reducing expense ratios, using the right withdrawal sequence, and—the biggest factor—behavioral coaching.

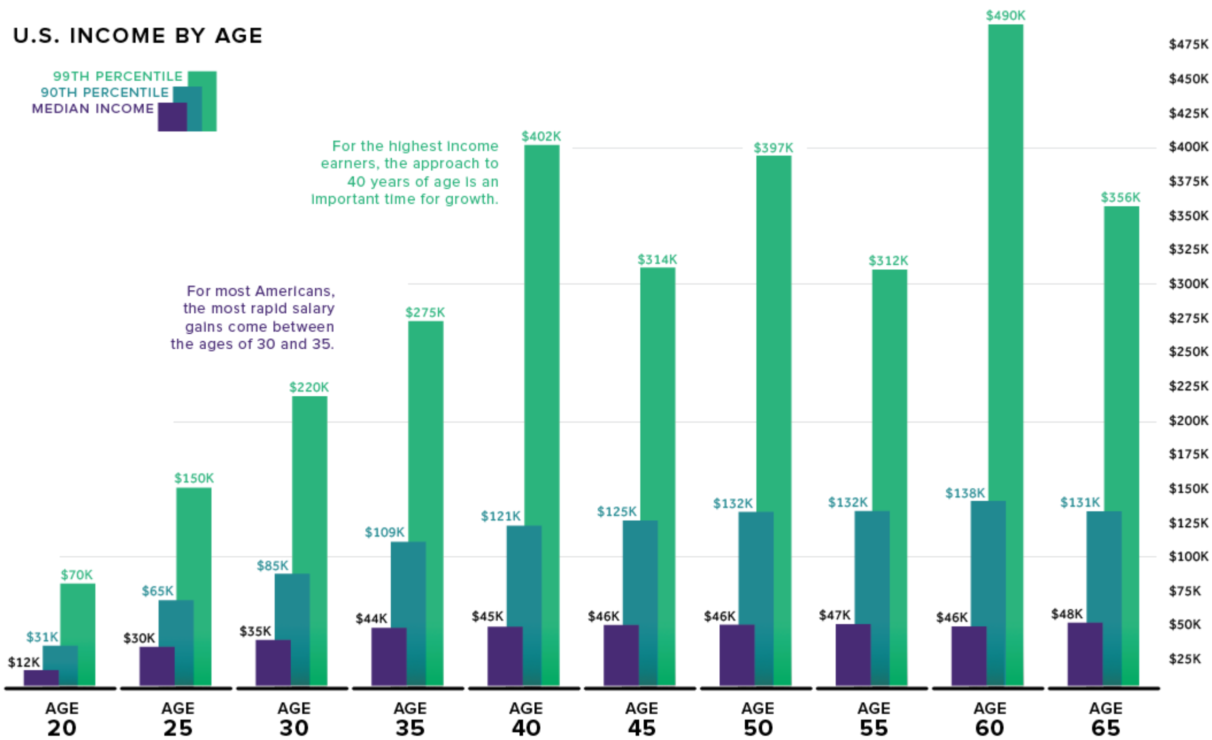
The funny thing is, the public's opinion of financial advisors has been declining over the past decade, but the industry seems to be cleaning up its act in many ways. This is a bit like turning around a super tanker…it takes time. Nevertheless, today there is more transparency, better planning tools, and better technology being used to deliver more value to clients than ever before.

Final Thoughts on Hiring the Right Financial Advisor

Few things will affect you and your family more over the coming decades than the financial decisions you are making today. We have seen countless people amass small fortunes during their lifetimes only to squander them through bad financial decisions. We often hear about the celebrities or athletes who make tragic financial mistakes. What is not reported in the press is how many middle-class millionaires also lose what could have been a financial legacy for generations. So, when you look for a financial advisor to help you navigate all these important decisions, there are two criteria above all else: competence and trust.

THOUGHT THIS WAS INTERESTING

Americans’ Income Levels by Age Group



I came across a very interesting article that had all kinds of data about income by age group. Here are some of the highlights:

- Earning trajectory is largely determined by the time a person is 35 years old.
- After the age of 35, the percentage of people earning $50K or more is surprisingly consistent until retirement age, hovering between 42% and 48% of workers.
- Two-thirds of people who are being paid the market rate believe they’re actually underpaid.
- You had to earn about $121,000 to be in the top 10% of income earners in the United States, and around $320,000 to be in the top 1%. See what percentile your income falls in HERE.
- The age at which the highest percentage of workers are earning $100k or more was 66. Of 66-year old’s who are still working, 21% are earning $100k or more. That is the highest proportion of any age group.

Source: Visual Capitalist