

Hire An Investment Advisor Who Works Only for You

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Choosing the right investment advisor may be the most important financial decision that you will make in your lifetime. Some compare it to choosing the right doctor to whom you will entrust your wellbeing. In the case of an investment advisor, your financial wellbeing and also the financial security of your family can largely depend on the advice received from a single person or company. This is exactly the reason why selecting the right advisor is a difficult task that must take into consideration all aspects of the advisor's capacity to act in the best interest of the investor. A simple matter like the structure of compensation that advisors receive for their investment counsel can be a good gauge of the advisors' fiduciary capacity. In this sense, and in many other aspects, advisors' compensation based on fees alone can be viewed as a model which best assures that investors receive what they pay for: sound investment advice.

A fee-only compensation model guarantees the highest degree of impartiality regarding the enforcement of the advisors' fiduciary duty. When you hire investment advisors, you want them to give you sound, impartial advice, with investment objectives carefully tailored according to your profile. Fee-only advisors do exactly this—their role is to give you the best possible advice. This is a stark difference from investment advisors who receive “commission-based” compensation. (Figure 1) Commission-based advisors tend to be perceived as those who sell financial products rather than investment counsel. Given that a portion of their compensation comes from financial services firms, such as insurance companies or mutual funds, the apparent conflict of interest may raise a question of whether they provide advice that is in the best interest of their clients.

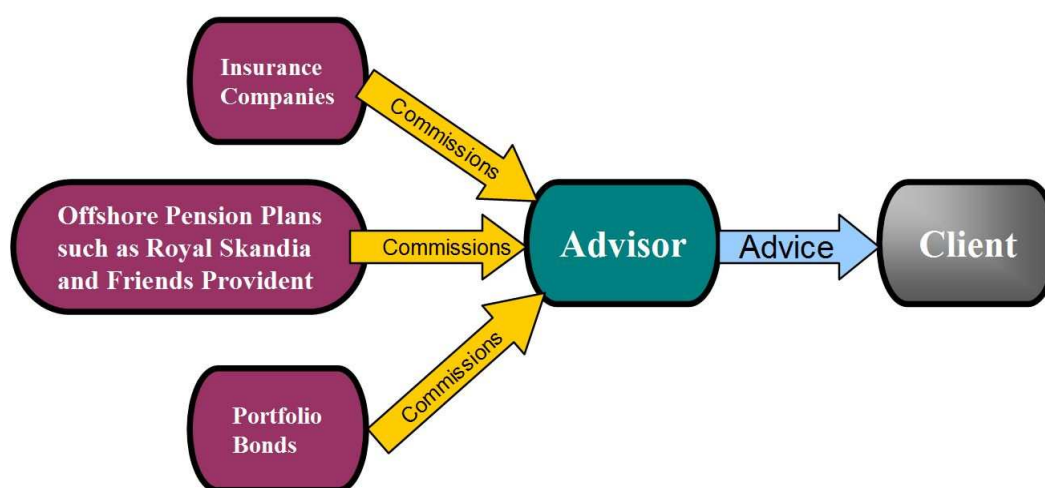


Figure 1. Commission-Based Advisor

In the U.S. and U.K this commission-based model is now being replaced by fee-only investment advisors. In fact, according to BBC News on March 26, 2010, the Financial Service Authority (FSA) has completed

a four-year study and recently banned financial advisors from receiving commission for selling investment policies.

The decision is a revolutionary change for the financial services industry. Commission payments have been at the heart of mis-selling scandals involving policies such as mortgage endowments and personal pensions.

"New rules... will remove commission bias from the sale of retail investment products," the FSA said.

"Firms will have to be upfront about how much they charge for their services, and no longer hide the cost of their advice behind the cost of a product," the FSA added.

The FSA's own consumer advice panel welcomed the regulator's announcement as a "huge step forward".

"At last, the distortion created by commission will be removed from investment advice," said Adam Phillips, chairman of the Financial Services Consumer Panel.

"The FSA has stuck to its guns, and really has acted to protect consumers and improve the system."

"Once the new rules are in place, independent advice will have to be truly independent, and not undermined by any commission paid by the product provider," he added.

When the new rules start, financial advisers will have to charge their customers directly for their services and will have to tell them exactly what their charges are.

"Firms will not be able to accept commission in return for recommending specific products," the FSA said.

Compensation based on fees provides an obvious, built-in incentive for advisors to act in the investors' best interest. First, fee-only advisors are paid to put your interest ahead of their own. If they fail in this role, they will lose you as a customer and, thereby, lose a portion of their income. Second, when fees are assessed as a percentage of assets under management, managers have an incentive to grow your assets. This makes their self-interest even more closely tied to your financial wellbeing. For example, when managed assets grow based on good investment performance so does the compensation earned from those assets. When poor investment advice produces weak investment performance, and assets' values decline, so does the compensation paid to the investment advisor.

Therefore, in the investor-advisor relationship, fee-only compensation gives more control to investors than other forms of investment advisory services. With investment advisors who receive compensation in the form of fees, your invested assets are never locked in. This means that you may withdraw your money at any time, without penalty fees. In this sense, costs associated with your investments could be lower than costs incurred when invested funds cannot be redeemed quickly.

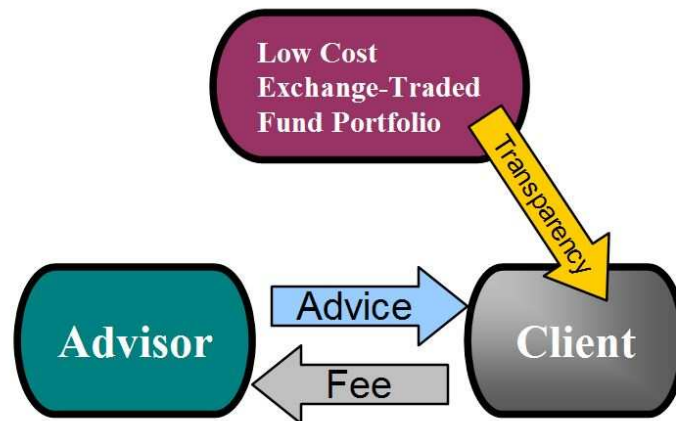


Figure 2 Fee-Only Advisor (Freeman Capital Management)

Fee-only investment advice is the most transparent compensation model and is replacing the old commission based advisor model. (Figure 2) Fee-only advisors receive compensation from their clients and not from other third parties, such as mutual funds or insurance companies. Acting in their client’s best interest, they minimize investment-related expenses. Fee-only advisors often use investment vehicles with low internal expenses such as Exchange-Traded Funds (ETFs). ETFs do not have redemption fees, charge front or rear loads, or have hidden 12b-1 fees which on some mutual funds may be as high as 1.0 percent.

The source and size of the financial advisor’s compensation is an important consideration when selecting an advisor. Fee-only advisors are paid to act in the best interest of their clients, minimize fees and disclose any conflicts of interest.

Three questions you need to ask anyone giving you financial advice:

1. **Are you legally obligated to act in my best interests at all times?** If so, are you willing to put that in writing? Anyone who purports to uphold a fiduciary standard should be willing to stand behind that claim.
2. **Will you disclose all potential conflicts of interest?** A fiduciary should be willing to disclose any relationship, compensation, incentive or other factor that potentially could interfere with his or her ability to act in your best interests. Even if you’re not interested in a fiduciary relationship, you should press your advisor to tell you about any potential conflicts so you can better evaluate his or her advice.
3. **In what ways are you compensated?** Ask if the advisor receives commissions, referral fees or other financial incentives. Some advisors tout themselves as “fee-based,” but also accept other payments that could influence their recommendations.

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