

I Already Have an Advisor, You Say

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“Oh, I already have a financial advisor,” she says. I politely smile and ask the seemingly flippant question, “So, what do you define as a financial advisor?”

This question is heavily debated within my industry, and for good reason. There are thousands of advisers out there, so how do you know what the different business models are and which one fits best with your situation? If all you know is chocolate ice cream, who is to say that mint chocolate chip ice cream doesn't taste better?

Most people tell me that their financial advisor handles their investments – and retirement accounts, maybe an individual account. With downward industry pressure on investment fees, however, this model is slowly becoming obsolete.

For some, the answer is a 1-800-“low cost brokerage firm” and like many, they may believe that advisors are unnecessary since “all you have to do to do well is buy index funds and not pay excessive fees.”

For others, the link to financial advice is through their insurance professional. While that person may or may not be a fiduciary, he or she might handle life insurance policies and maybe one small IRA. The existing relationship was a gateway into advice without having to pay a fee.

While I hear many advisors espouse comprehensive planning, I find that in practice it's rare. Where is the true private CFO who is stress testing clients' scenarios (do I pay my mortgage down or put my money into my retirement savings vehicle)? We can all make intuitive guesses and after all, we don't get paid on your credit card balance. Where's the tangible work product to back the recommendation? Why is a product the immediate go-to, instead of thoughtful analysis around your unique situation and scenario?

As technology continues to evolve on the investment piece, finding meaningful, personalized advice is going to become more and more critical. The reality is that designing a portfolio is only one small piece among the complex workings of one's financial world. The commoditization of asset allocation will put downward pressure on the fees of this part of the planning. Taken together, these facts lead us back to the question: what is financial planning and what is the role of a financial advisor?

My belief is that everyone's finances should be rooted in a true financial map – a solid plan based on real numbers, where all possibilities and outcomes are tested in the context of the client's personal situation. The financial plan should dictate how you make financial decisions and what products you utilize, not the other way around.

In other words, your map or plan should decide the financial products you purchase and how you position them. Most people have purchased a number of financial products and by default, that has become their plan. This can be highly dangerous.

This opinion is likely not popular in my industry. In theory, finding and paying a true financial planner that builds an actual mathematically based plan is for everyone. However, with the growing disparity in socioeconomic statuses, it's getting harder to find a true planner that operates as your private CFO, analyzing the whole picture instead of giving isolated advice around one issue (i.e. just insurance, just investments, just estate planning, etc.). The financial services industry hasn't caught up with the economic reality of widely divergent incomes, and with thousands of advisors in the industry, it's easier (and more profitable) for most to quickly complete an engagement by focusing on the implementation of a product, without building the actual map first.

It's easier for many advisors to focus on the sale of product alone. The overhead is much higher for an advisor to operate a truly comprehensive planning business, due to extra staff and operating costs. In addition, in order to build a physical plan, you must know how to operate highly technical advisory software and be willing commit the cost to purchase and operate it.

Because of the additional costs there are planning fees associated with real financial planning, similar to those of any professional CPA or attorney. This creates a higher-end service model, which may not attract middle market clients. The reality is that the middle market providers, by and large, have continued to purchase product only, without knowledge around how to create a true map or plan.

This business trend will continue to make it tougher for the middle class to access good financial planning advice and encourage these clients to settle for a product-only business model. But at any income level, it is important to know that there is, indeed, a difference in product selection and true financial planning. Thoughtful coordination of financial planning around all of your issues – no matter how auspicious or challenging they appear – is the pinnacle of advice.

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