

09/04/2007

Do a little work before picking an investment firm

IT'S YOUR BUSINESS

Aaron Skloff

Q: We were taking a walk in Princeton and were shocked by how many investment firms lined the streets. What are the major differences investors should consider when evaluating different investment firms, their services and their financial advisors?

The problem: Choosing the right financial advisor at the right firm.

A recent Internet based yellow page search of the word "stockbroker" lists over 50 results in Princeton alone. They all seem the same, with one name fancier than the next. Their services range from stock brokerage to financial planning and wealth management. With so many firms to choose from, investors can easily make a wrong decision, which they will regret for the rest of their lives.

The solution: A little due diligence goes a long way.

Choosing the right financial advisor at the right firm is similar to selecting the right surgeon at the right hospital, but with a couple of twists. Every investor needs to understand the different types of investment firms before they can make an educated decision.

Let's start with the largest firms in the industry. These are the firms we see advertising during events like the Super Bowl. Please pay attention to the upcoming twist. These firms are publicly traded companies that trade on the stock exchange like any other stock. And, like any other stock, their boards of directors must act in the best interest of shareholders — not clients of the firm.

Many of the middle- and smaller-sized firms are not publicly traded and can act in the best interest of their clients — not the shareholders. Finding out if the investment firm you are considering is a publicly traded company is as easy as looking it up online or calling the firm directly.

Understanding a firm's registration is critical.

Fiduciary duty is the highest level of duty an investment firm can exercise. When accepting fiduciary duty an investment firm must, by law, act in the best interest of its clients — above and beyond those of its shareholders or employees.

All investment firms must register with securities regulators. Most of the large investment firms register as a broker dealer, avoiding the obligation of fiduciary duty in the process. If a firm registers as a Registered Investment Advisor they are obligated by law to accept fiduciary duty. Here comes another twist.

Some investment firms register as an RIA, but claim those aspects of their business are ancillary to their practice — mitigating their responsibility in the process.

If you can only remember one thing from this article, here it is: If you want the investment firm you are dealing with to place your interests above and beyond their interests, have them clearly accept fiduciary duty in writing on their company letterhead.

Understanding the firm's services is critical.

Many of the larger firms imply they provide independent financial planning and investment management services. In reality, their financial plans are "free" reports designed to lure you into their own investments. No doubt, there is some disclosure buried somewhere in the documents explaining all the conflicts, but most people do not have the time to search for them.

Many of the middle- and smaller-sized firms imply they provide independent financial planning and investment management services. In reality, they are insurance salespeople trying to sell as much insurance as you can afford, and then some.

One good litmus test is to find an investment firm that can assess a fee for a financial plan, whether or not you choose to utilize any of their other services. Another good litmus test is to find an investment firm that does not have their own investment products.

The financial advisor's background is the most critical aspect of your evaluation.

When meeting with a financial advisor, consider it an interview. The reality is you are hiring them for the most important part of your life ... well, at least your financial life. Some important questions to ask include: Where did you go to college or graduate school? What degrees do you have? What licenses and certifications do you have? How long have you been in the industry?

Ideally, your financial advisor should have a strong academic background, carry the appropriate licenses for your needs and have good experience. Two designations stand out in the industries of financial planning and investment management: Chartered Financial Analyst, a program based on a series of progressively more difficult exams, and the Certified Financial Planner, a program based on one exam.

Conclusions.

Selecting the right investment firm and financial advisor is a critical decision. Utilizing the criteria discussed in this article can turn a difficult task into one of ease.

If you are already working with an investment firm and a financial advisor be sure they can provide the level of service and independence you deserve.

Aaron Skloff, is an accredited investment fiduciary, chartered financial analyst, and holds a masters of business administration. He is the chief executive officer of Skloff Financial Group, a Berkeley Heights-based registered investment advisory firm. The firm specializes in financial planning and investment management services for high net worth individuals and benefits for small- to middle-sized companies. He can be contacted at 908-464-3060.