

Why People Want Independent Financial Advisors

In some cases, “independent” is better.

Provided by **JOSEPH A. GARAFANO, CFP®**

Times have changed – and so have financial advisors. Today, people don’t want financial advice from a salesman. Instead, they want a relationship with a financial professional who is candid, trustworthy and thoroughly educated, and who provides personalized financial consulting for each client.

That search often leads them to a fee-based or fee-only financial advisor or a Registered Investment Advisor.

A pleasant alternative to Wall Street. A paradigm shift has happened, and the traditional brokerage houses are witnessing its impact. Although old-school “stock brokers” have pretty much gone the way of the woolly mammoth, you still have a sales-first mentality in place at the big banks and Wall Street brokerages. If you’re employed by one of them, the mantra is simple: make a sale, earn a commission. As they try to serve their clients, these “wirehouse” brokers regularly contend with sales quotas and the inherent potential for conflicts of interest.

In a recent Charles Schwab survey of brokers at large financial firms, 78% of the respondents expressed their belief that their clients felt more loyalty to them than the Wall Street firm and that 70% of their clients would follow them if they left it. Many investment professionals start their careers with the wirehouses, and 65% of the brokers under the age of 40 surveyed said becoming an independent Registered Investment Advisor appealed to them. Not only that, 76% of respondents felt that the number of registered representatives leaving the wirehouses would increase in the coming years.^{1,2}

Consumers are savvy, and it isn’t surprising that they are turning elsewhere for financial advice. In particular, there are three popular resources.

A *fee-based financial advisor* has structured his or her practice to promote earning income from fees instead of commissions. The emphasis is on advice. An independent, fee-based financial advisor also has freedom – freedom to choose the most appropriate products and services for your risk tolerance and investment goals. (More about that in a moment.)

Fee-only financial advisors earn no commissions at all. They derive 100% of their income from client fees, either annual management fees or hourly or per-project consulting fees. With this compensation arrangement, you know that the advisor is available to help you address myriad issues in your financial life, not simply those that could generate commissions linked to product sales.

A Registered Investment Advisor (RIA) usually works to manage the assets of high net worth investors. The management fees usually represent a percentage of the assets a client has invested. RIAs have to register with the Securities and Exchange Commission or the securities authorities in the states in which they operate. They also have a fiduciary duty to their clients – that is, their actions and investment recommendations must be in the client’s best interest.³

In 2014, Registered Investment Advisors are managing \$1.5 trillion of invested assets. From 2008-12, assets under management by RIAs grew an average of 8.8% per year. In that same stretch, the population of RIAs grew 8% per year.⁴

People need unbiased advice. That’s probably the #1 reason why people seek an independent financial advisor. They know that the advice they receive is not shaped by sales incentives or directives. There is often a candor to the discussion that may not always be present at a bank or a brokerage.

People want more investment choices. An independent financial advisor is free to offer investments from dozens, maybe hundreds of companies, rather than the investments of a single company. In addition, that independent advisor can unhesitatingly tell you if an investment is or isn’t appropriate for your financial situation.

This is the age of independence. When it comes to the financial future, no one wants to be “sold” – just advised. That’s why we’ve seen the rise of a new kind of financial advisor who puts the client relationship first.

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Citations.

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2 - riabiz.com/a/11600418/fed-up-wirehouse-advisors-more-eager-to-leave-than-ever-study-says [2/28/12]

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4 - forbes.com/sites/halahtouryalai/2014/04/16/still-booming-top-rias-keep-getting-bigger/ [4/16/14]