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Your Financial Co-Pilot

If anything happens to you, your family has someone to consult.

Provided by Frank DeMaio*

If you weren't around, what would happen to your investments? In many families, one person handles investment decisions, and spouses or children have little comprehension of what happens each week, month or year with a portfolio.

In an emergency, this lack of knowledge can become financially paralyzing. Just as small business owners risk problems by "keeping it all in their heads," families risk problems when only one person has an understanding of investments.

This is why a trusted relationship with a financial advisor can be so vital. If the primary individual handling investment and portfolio management responsibilities in a family passes away, the family has a professional to consult – not a stranger they have to explain their priorities to at length, but someone who has built a bond with mom or dad and perhaps their adult children.

You want an advisor who can play a fiduciary role. Look for a financial advisor who upholds a fiduciary standard. Advisors who build their businesses on a fiduciary standard tend to work on a fee basis, or entirely for fees. Other financial services industry professionals earn much of their compensation from commissions linked to trades or product sales.

Commission-based financial professionals don't necessarily have to abide by a fiduciary standard. Sometimes, only a suitability standard must be met. The difference may seem minor, but it really isn't. The suitability standard, which hails back to the days of cold-calling stock brokers, dictates that you should recommend investments that are "suitable" to a client. Think about the leeway that can potentially provide to a commission-based advisor. In contrast, a financial advisor working by a fiduciary standard has an ethical requirement to act in a client's best interest at all times, and to recommend investments or products that clearly correspond to that best interest. The client comes first.

You want an advisor who looks out for you. The best financial advisors earn trust through their character, ability and candor. In handling portfolios for myriad clients, they have learned to

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watch for certain concerns, and to be aware of certain issues that may get in the way of wealth building or wealth retention.

Take account and fund fees, for example. These can subtly eat into retirement savings. According to Investment Company Institute research, annual expense ratios of stock funds averaged 0.77% in 2012. So why do many investors endure annual fund fees well above 1%? (The typical equity mutual fund charges an investor 1.3-1.5% a year.) An advisor acting in your best interest could alert you to egregious fees and work with you to find alternatives.[1,2]

Many investors have built impressive and varied portfolios but lack long-term wealth management strategies. Money has been made, but little attention has been given to tax efficiency or risk exposure.

As you near retirement age, playing defense becomes more and more important. A trusted financial advisor could help you determine a risk and tax management approach with the potential to preserve your portfolio assets and your estate.

Your family will want nothing less. With a skilled financial advisor around to act as a “co-pilot” for your portfolio, your loved ones have someone to contact should the unexpected happen. When you have an advisor who can step up and play a fiduciary role for you today and tomorrow, you have a professional whose service and guidance can potentially add value to your financial life.

If you’re the family member in charge of investments and crucial financial matters, don’t let that knowledge disappear at your passing. A will or a trust can transfer assets, but not the acumen by which they have been accumulated. A relationship with a trusted financial advisor may help to convey it to others.

Frank DeMaio, CPF®, CFA is a Registered Representative offering securities through UNITED PLANNERS’ FINANCIAL SERVICES OF AMERICA, a Limited Partnership, Member FINRA, SIPC. Frank may be reached at 603-641-1010 or fdemaio@jtdfinancial.com. JTD Financial Services and United Planners’ are not affiliated.*

Citations.

1 - forbes.com/sites/johnwasik/2013/06/27/why-mutual-fund-fees-are-too-high/ [6/27/13]
2 - investopedia.com/university/mutualfunds/mutualfunds2.asp [12/5/13]