Selecting Your Next Advisor:
Five Types of Financial Advisors/Planners for Your Consideration

Trust

“Trust” is almost always the number one reason given by a client for choosing their financial advisor.

So, we did some searching for information about how to create “trust”. What is it? Where does it come from? Does it need to be maintained over time or is a situation where once created it never disappears?

We found a pretty good source called “live your trust story” which provided us with some interesting insights about trust.

People we trust tend to give their word, then follow through with appropriate actions.

When we communicate effectively, we tend to avoid situations where we promise to do something but don’t really want to do it. Trust is built by speaking clearly and honestly when making commitments and making sure that everyone is on the same page.

It takes time to build trust, but it can be destroyed quickly. Trust is built on small steady progress.

Trust is maintained by placing a high value on the relationships we already have. Relationships require effort. It’s important to consistently “show up”, providing value to your relationships. Treat customers as valuable members of your company and don’t spend all your time chasing new customers.

Team skills and open participation within your spheres of influence will help to generate trust.

Honesty really is the best policy. People tend to have a desire to express information in the most pleasant way possible, and while we should always seek to spare other people’s feelings, never-the-less it’s important to find ways to always tell the truth. The alternative, ie. telling a lie, is a destroyer of trust.

Help people whenever possible. Providing your assistance in your areas of expertise will be especially well regarded when there is nothing to gain for yourself. Therefore, look for opportunities to help others, even when you don’t end up with a client. Clients, friends, and even acquaintances will notice, and trust will be built.

Showing empathy, emotion, and feelings will help to build trust. These days, a relatively new buzzword has arisen known as “emotional intelligence”. It’s about remaining calm and balanced but responding with empathy and emotion. In addition, it’s about remaining “constructive” during conflict.

Don’t always be a self-promoter. It’s always OK to tell your story in a genuine manner. Naturally, the things on your mind are the activities with which you are involved. To avoid destroying trust, listen to yourself and try to place yourself on the other end of the conversation. In this way, it’s possible to avoid self promotion. Acknowledgement and appreciation in relationships are trust builders.

Show that you have values and beliefs by following the values and beliefs you already have, in other words, be genuine and do what you think is right. This trust building action can be summed up in one word, “integrity”.

Everyone makes mistakes. When you make a mistake, admit it. In such cases, sincerity matters. It seems hollow when a person in a disagreement simply apologizes to end the conflict. People need to believe you are sincere and trust will be enhanced.

The Do-It-Yourself Fallacy

Before we launch into the Five Types of Financial Advisors, a.k.a. the Five Models of Wealth Management, we first take a look at a major fallacy.

There are dozens of books, websites, DIY brokers, and educational courses that will teach you to manage your own portfolio. They will tout that you can achieve exceptional results on your own – far better than any broker or professional manager. Some even propose that the reason most people don't achieve great results is because they pay too many fees to their advisors and brokers.

Warren Financial is not a broker. Warren is not a company that charges fees to place trades. So Warren Financial has some objectivity.

Further, you should strive to fully understand the difference between a portfolio manager that is in a fiduciary position to you, vs. brokers and commissioned salespeople that are not your fiduciary.

Regardless of cost, the most important thing when it comes to managing your portfolio is making money. If you pay a small amount but are constantly losing money, then you won the battle but lost the war. In the extreme, it's better to pay high fees and get a superior return on investment. Even better to pay low fees and still get a superior return on investment. The point is that the keystone in the process is not what you pay, instead the key point is:

Value = (what you get – what you paid for it)

What "Value" does the DIY portfolio manager achieve? Some studies have shown (for the period 1990 to 2010) that individual investors have only achieved a 3.49% average annual return on investment; whereas the market (as measured by the SP500) from 1990 to 2010 produced 7.81% annually. Some argue with the methodologies used to compute these results. But that is not the point. As a financial advisor for the past 20 years, our personal experience is that a big part of our "value proposition" to the investor is simply keeping them from shooting themselves in the foot. The exact ROI percentages are irrelevant. What is relevant is that an investor with no coach, no advisor, no helper will OFTEN make emotional mistakes which cost them dearly.

How do the DIY investors shoot themselves in the foot? Every investor, beginner and expert alike knows that the goal is to find quality companies and then buy them low and sell them later at higher prices, thus achieving a positive return. DIY investors shoot themselves in the foot by becoming emotional about their investment decisions. They tend to do exactly the opposite of buy-low and sell-high. The reason is that when stocks are low, instead of thinking of them as "on sale" or "inexpensive" the DIY investor is concerned that he/she will lose all his hard earned dollars as he watches his brokerage account lose $thousands daily or monthly. And when stocks are high, the DIY investor is on an emotional high, daily counting up his chickens before they are hatched, rubbing his/her hands together. The last thing a DIY investor is thinking about when stocks are high is selling the golden goose that is laying eggs in their portfolio.

Studies and decades of experience managing money have convinced every "advisor" that DIY should be left at the Home Depot. An investor should no more be a DIY investor than a sick medical patient should look up his condition on the internet and treat himself.

Another major reason not to be a DIY investor can be boiled down into a single word (to be explained later): **ACCESS**.

Comfort from a Big-Box Store Model

1) A Big Box Broker, a type of “Walmart” of investment services (such as Merrill, Goldman, Morgan, Wells, or others)

OVERVIEW

The big box store approach to wealth management means that you are doing business with a well known brand that is handling $trillions of dollars and hundreds of thousands or even millions of investors. Just like shopping in a Home Depot or Walmart, the experience you get depends heavily on the quality of the person you happen to meet when you walk into the store that day.

ACTIVITIES

The investor turns over management to an advisor at the big box retailer (such as Merrill, Goldman, Morgan, Wells, or other).

The advisor is tasked with picking investments that are suitable for the investor. Sometimes in a fee account the advisor may be acting in the investors “best interest”, but most of the time, the advisor is held to the lower standard of simply picking investments that are “suitable” for you.

This usually results in the advisor turning over the bulk of your portfolio to the big box store “back office” that will select stocks and bonds for a standard fee of perhaps 1%. Then to supplement advisor income, many big-box-store advisors also sell you mutual funds and annuities while the advisor pockets the commission.

DRAWBACKS

- The investor may never get to talk to the people actually handling his/her investments, but only to the initial sales person often known as his/her “advisor”.
- The advisor is free to sell the investor any suitable product that will create a commission for himself or herself including products created by the big box broker which are “pushed” on the advisor and for which the advisor is “incentivized” by the big box broker.
- One widely reported drawback reported to us by our clients who used to be the client of a big box broker is that they tend to only pay attention to their big clients who have more than $10m or even more than $25m to invest.
- The portfolio the investor gets will most likely be cookie cutter and based on the widely adopted “fully diversified portfolio” approach. We track a fully diversified portfolio made up of low cost ETFs which has a 10 year return (ending 2018) of only 6.04% whereas the SP as measured by the SPY low cost ETF returned 10.75% Maybe there is a better approach than the cookie cutter “fully diversified portfolio”?

The "I Hate Fees", Discount Model

2) Discount Brokers arrived on the scene with the advent of the internet.

OVERVIEW

Discount Brokers such as Schwab, E-Trade, and others provide technology to investors to help them DIY. The allure to many investors is that the technology is "free" as long as you pay the broker a low per-trade fee. The cost/trade has been dropping for years as companies like Schwab and Fidelity compete for this business. Most recently an upstart broker named Robin Hood is offering a $0 cost per trade fee.

ACTIVITIES

The investor gets a trading platform and a few lessons in how to hit the "Buy" or "Sell" button. The discount broker often provides some level of information about companies that the investor can use to investigate potential stocks to buy.

Just like credit card companies aren't overly fond of people who pay their entire bill every month, holding no balance, and paying no fees or interest; discount brokers aren't entirely fond of investors who buy and hold making few if any trades per year. They traditionally have made their money from "per trade fees", however, like banks and airlines, they will play the shell game and move fees around to hide them from you.

DRAWBACKS

- The investor is truly on his own. Perhaps he/she gets access to an 800 number to ask questions, or a chat feature, along with message boards where other investors can mislead him/her.
- This is a simple model where the investor gets very little and pays very little. The investor may feel empowered by doing it him/her-self. However, most investors don't have training in accounting and don't have the background or knowledge to understand financial statements.
- Most investors don't know how to properly calculate their results. If they've made a few good trades they usually feel pretty good about their own management. But seldom does the DIY investor calculate a portfolio wide return on investment and compare their results against some reasonable benchmark.
- One widely reported difficulty the investor has is answering the question about "when to sell". Most discount broker investor types spend a good amount of time investigating buy decisions, but then become heavily invested in their ability to make good decisions. This results in extreme difficulty to sell as if the decision to sell is an admission of a failure in the investors analysis. We've observed investors so "married" to their trades that they literally watch their assets drop by more than half – stubbornly refusing to sell.

The Free Thinker Mutual Fund Model

3) Investing with a Mutual Fund company such as Vanguard, Fidelity, Pimco, and others.

OVERVIEW

The investor assumes that the whole investment process is not that difficult if he/she can turn all the detailed stuff over to a mutual fund or ETF company.

ACTIVITIES

The investor picks a few big mutual funds and lets them go to work.

The investor doesn't feel as if he/she is paying anything because the mutual fund company takes their management fees out of the fund.

Many mutual fund companies generally keep their nose clean and have a good reputation (such as Vanguard and Fidelity) so the investor feels emboldened that pretty much all decisions he/she makes will be good ones.

DRAWBACKS

- The investor may not fully understand how mutual funds make their money. For example, is the investor paying 12b-1 fees? Or is the investor buying the A shares or the C shares, the R shares or the D shares? What does it all mean?
- The investor has little understanding of the overlap between his funds. The investor assumes he/she is diversified when in fact his/her funds have massive overlapping holdings. He may assume that because all his funds are going up together in a bull market that all his funds are "good". He may not realize that many of his funds have the very same holdings inside them such that when the market goes down, his funds will all go down together. The investor believes all the while that he/she is diversified.
- Sometimes mutual fund companies have a store front. But usually the investor ends up getting help from someone not allowed to give advice. The nice person at the store will usually tip you off by saying, "I not allowed to tell you what to do, but if it were me, I would…."

Security Blanket Insurance Model

4) A Commission Based or Hybrid Financial Advisor representing a major insurance company such as (Lincoln Financial, AXA, or others)

OVERVIEW

Insurance companies have been in the habit of designing plans that appeal to investors who are totally risk averse. Some investors simply don't understand the markets and don't want to understand them. They simply want to make some money when markets go up and not lose any money when markets go down. Insurance companies are glad to oblige. They design products that give investors a fraction of their profits when markets rise while protecting them when markets fall – all within an expensive fee structure.

ACTIVITIES

The investor buys an insurance product from a nice salesperson. The product comes with lots of guarantees and a big giant book you will probably never read that explains in gory detail everything you need to know. First tip: If you didn't read the book, then don't buy it. This is very important with insurance contracts because that big thick book explains to you "when" and "how" you can withdrawal funds and what those withdrawals will "cost" you.

This type of salesperson, or "advisor" is not required to act in your "best interest". They are a salesperson working for a commission. That doesn't mean everything they say is wrong or bad, just like everything a car salesman says is not wrong or bad. It's a buyer beware situation.

DRAWBACKS

- The investor will be paying high fees for all those juicy guarantees.
- The investor will have a hard time getting his/her money back if they want to use it. Typically there are heavy withdrawal fees if you want to sell which range from 7% up to 15% - just to get your money out of their contract. This is shown on their statement as the "Surrender Value" and the "CDSC costs".
- The investment choices inside insurance products are typically not very good. The funds probably have higher than average management fees and lower than average returns on investment.
- Only 4% of all annuity buyers ever "annuitize". If you don't know what that means then your salesperson did not fully explain the product to you and/or you didn't read the book he gave you.

The Human Element of TRUST Model

5) A Fee-only Registered Investment Advisor

OVERVIEW

The Registered Investment Advisory Representative is required to put your "best interests" first. That doesn't mean he/she is always right or that your investments will always make money. No one has a crystal ball.

ACTIVITIES

There are 2 types of Registered Investment Advisory companies, those that manage assets themselves (picking funds, individual stocks and bonds) and those that outsource the management to someone else.

The advisor should provide the investor with sophisticated advice including coverage of topics such as taxes, estate planning strategy, 401k, employee stock options, profit sharing plans, alternative investment types, etc.

The advisor should provide the investor with a comprehensive financial plan utilizing statistical tools to calculate probabilities of success. Goal based planning is paramount. Investment portfolios should be diversified, but not follow the cookie cutter "fully diversified model" that has tended to underperform.

ACCESS. The advisor should be able to provide access to "difficult to find", "high quality" investment opportunities for the investor, not just build a portfolio of stocks, bonds, and funds. This should include real estate opportunities, venture capital, private equity, special non-public funds, etc. There is more to a successful investment portfolio than just stocks and bonds.

Each investor should seek a goal based, custom built portfolio.

DRAWBACKS

- Don't pick the wrong advisor.
- Don't pick an advisor that sells annuities, especially if the advisor recommends putting your IRA money into an annuity.
- Don't pick an advisor that only buys mutual funds or ETFs. These carry extra costs and are just another form of outsourcing investment decisions.
- Don't pick an advisor that sells any commissioned products.

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Investing for a Greater Purpose

Warren Financial

- Established in 1965 by Bill Warren
  - Over 50 years of industry experience
- Headquartered outside of Philadelphia
  - Clients in 19 states and abroad,
  - Offices in Philly, Hilton Head Island and Atlanta
- Provides financial planning and asset management services to more than 280 clients
  - Our most tenured clients have been with us for over 30 years. 93% Client retention.
- Senior management team with high-level experience in the financial services industry
- Our Customers are…

Self Made LEARN MORE

Executives that have saved for retirement, typically between $1m - $10m

Dual Income LEARN MORE

Dual Income couples still working, such as doctors, consultants, engineers, lawyers, typically between $1m to $10m

Family Owned LEARN MORE

Small to medium business with between 10 and 100 employees, executive pay packages, 401ks, deferred comp, etc

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Warren Financial in the News...

BARRON'S

Warren Fund Hedges Bets on Dividends, MLPs

Randy Warren is chief investment officer of investment advisory firm Warren Financial Service, and manages WFS Funds, the firm's investment division, with roughly $75 million in assets under management in hedge funds, mostly for high net worth individuals.

"Dividends were a good place to be last year, and they seem to be a good place to be this year," Warren says. Still, he worries about whether dividend stocks are becoming too popular, and adds that "definitely you want to have something allocated toward growth" in your portfolio.

The firm has a dividend strategy that buys dividends stocks as well as buying call options on the VIX volatility index that are "deep out of the money." If the market goes down, the VIX goes up, providing a bit of a hedge, and "if the market really goes down, those VIX options will explode in value."

THE WALL STREET JOURNAL.

Some Investors Show No Fear of a Rising VIX

Randy Warren, investment strategist at wealth-management firm **Warren Financial Service**, which has $80 million under management, often uses VIX call options to insure against potential market declines. Last month, when stocks began to slide, he bought call options "in case things turned ugly."


Forbes

Billionaires Innovation Leadership Money Consumer Industry

3 Major Investment Themes Of 2019

Randy Warren Contributor
Markets

So, a guy walks into a bar...

It's amazing what happens when you talk loud enough in a bar setting, how your seemingly quiet conversation between you and your friends can spark intrigue and debate among the rest of the patrons.

Over the holidays, I meet up with a handful of clients who have become good friends over the years. We have good a chat about life, our

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Thank you!

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Call for an appointment today
Or just visit our website and chat with a live advisor now
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