

# SUBURBAN *Living*

SERVING THE TOWN OF HOLLY SPRINGS



## Understanding the Role of Your Financial Consultant By Steven K. Lewis

Posted By: [Rob Fox](#) Posted date: April 24, 2018 In: [Articles](#), [Finance](#)

Do you like hats? I do, especially as Summer comes around. You might say that my “Irish Blood” instinctively draws me away from the sun, perhaps it is because I am now in the ‘50’ club, or perhaps it is because I turn red like a lobster. It doesn’t really matter why I like hats, right?

The financial consulting industry has a lot of hats that parade around, too, and the sad thing of it is that the typical client has no idea what hat is being worn by a financial consultant.

Let me start off with the main question that I hear from my radio listeners: “What should the role be of a financial consultant that I am considering hiring?” Here are questions you need to

answer, first, as an investor or potential investor: What are your expectations from that consultant? Do you want them to provide you with just recommendations on things you need to purchase, or do you want the consultant to manage your assets? *Big difference here.* Are there limitations as to what that consultant can and cannot do? And finally, how do they get paid?

These are great questions and they deserve answers. But you would be surprised as to how many consultants will squirm if asked questions like these. For starters, *not all* consultants are required by law to 'act in their client's best interest.' Yes, you heard right. Most consultants are only held to a level of 'suitability.'

As reported recently in Investment News dated April 10, 2018, "Investment advisors are currently held to a fiduciary standard of care, while registered representatives (i.e. Brokers) must adhere to a suitability standard. The latter requires that investment products meet the objectives and risk tolerance of a customer, among other factors, but allows Brokers to recommend a product that gives them the highest revenue." To clarify, Investment Advisors are held to a fiduciary standard and are legally bound to act in another person's "best interests" and other consultants are not. This includes and is not limited to Insurance Agents, Investment Brokers, Financial Advisors, and Registered Representatives.

Before I go on, allow me to qualify a few things; the two most important elements that a client should have with their financial consultant (regardless of who he or she is) is both trust and transparency. You should have trust in the recommendations you are receiving to fully fit your objectives and that the results will be satisfactory. There should be transparency in that all expenses (commissions and fees) have been brought to the 'forefront' and any conflicts of interest have been fully disclosed. In other words, make sure your recent investment purchase was not recommended to you for the sole purpose of your advisor's next free trip to Tahiti.

So, who are the main characters in the financial consulting world? Below is a summary and not intended to be an exhaustive description of the following financial consultants:

### **Investment Advisor Representative (IAR):**

Consultants who carry this license are predominantly fee based (flat fees billed quarterly, or a fee based upon the total assets under management). When exercising as an Investment Advisor Representative, commissions cannot be taken or charged to the client and received by the representative. All fees and expenses charged by the firm must be provided to the client in writing within the Advisory Agreement.

They are considered 'fiduciaries' under both Federal and State laws and are governed by either the SEC (Securities and Exchange Commission) and or by the Secretary of State's office where they are domiciled. Every equity placed in a portfolio must be positioned with the best interest of the client in mind.

Many firms are active in their management style and do not ascribe to the typical 'buy and hold' and are considered asset managers.



Their fiduciary responsibilities are limited only to Securities, i.e. Stocks, Bonds, Mutual Funds, Exchange Traded Funds, Real Estate Investment Trusts, Advisory Variable Annuities, etc.

Conflicts of interest may exist but must be disclosed fully in writing and contained in the Advisory Agreement with the client. A client can choose not to accept any conflict.

### **Broker/Registered Representative**

Consultants who carry this license are predominantly commission/transaction based. Commissions may come in the form of selling or buying a security that was recommended to the client. These include but are not limited to: mutual funds, stocks, exchanged traded funds etc. A growing practice today is charging the client a flat fee instead of a commission.

Consultants are not considered fiduciaries and are only required to provide suitable recommendations. NOTE: Brokers can be licensed as Investment Advisor Representatives under their Broker Dealer but MUST disclose this relationship change with the client. An Advisory Agreement MUST be provided detailing all the expenses and conflicts of interest fully disclosed in writing to the client if applicable.

Most, if not all, are not active in asset management but do ascribe to a more 'buy and hold.'

Brokers are regulated by the Financial Industry Regulatory Authority (FINRA).

Conflicts of interests do not have to be disclosed such as sales incentives, sales contests, sales perks such as trips and other monetary gifts, etc.

Since these Consultants are not fiduciaries, disclosing the specifics regarding any compensation is not required by law.

Not all Broker Dealer firms operate the same way and/or charge the same commissions. Do inquire within.

### **Insurance Agent**

These consultants are 100% commission based and can take their commission payment up front or in the form of an annual trailing percentage of the overall commission payment. Any percentage of commission the consultant earns does not have to be disclosed to the client.

These consultants are regulated by the Department of Insurance within the State where they are domiciled.

These consultants are not fiduciaries and are only required to provide suitable recommendations.

Conflicts of interest do not have to be disclosed such as sales incentives, bonus programs, additional perks and trips, etc.

Many insurance agents portray themselves as 'financial advisors' as some carry securities licenses and can represent and sell variable life and annuity products.

Many insurance consultants may be registered as an investment advisor representative. But please note, their fiduciary standing DOES NOT include any recommendation of insurance products.

### **The Hybrid Consultant**

These consultants carry two licenses: an investment advisory license (or Certified Financial Planner CFP) designation and a Broker's license. The first license allows the consultant to charge a financial planning fee and the second allows the consultant to get paid a commission on the same assets. If you think this looks like 'double dipping' (a.k.a. getting paid twice on the same asset) you are correct.

Example: A couple seeks a consultant to provide financial planning and investment advice for their estate containing \$600,000 of investable assets. The 'hybrid' consultant sells them a financial planning program which charges them 1% annually or \$6,000 a year. The clients love the idea and agree to have the 'hybrid' consultant place their \$600,000 into a brokerage account where commissions are paid. If the 'hybrid' consultant chooses to 'front load' the clients on things like Real Estate Investment Trusts at nearly 4% commission, Limited Partnerships at near 7%, and Class A mutual funds which can pay him as much as 4.5%, that's one big pay day.

In the above example, the consultant must lawfully provide the client TWO business cards. One that states Investment Advisor Representative and the second card stating clearly Registered Representative/Broker. These two cards clearly communicate to the client the two 'hats' or roles the consultant is going to play in the relationship.

If you are confused when speaking to a financial consultant, as to what their title is and what limitations their licenses allow or not allow just look at their business card. However, there is one thing to make clear. The client can call their consultant anything they want: advisor, consultant, planner, etc. But the consultant CANNOT give themselves any title or name they want. Here are a few examples:

Investment Advisor Representative (IAR)

Broker or Registered Representative

Insurance Agent

Financial Advisor (This title can mean anything.  
Ask for clarification)

One of the biggest temptations that confronts the mindset of those in the financial consulting profession is “if it is lawful it must be ethical.” That is so far from the truth. The above referenced example about the ‘hybrid’ consultant is the largest growing part of the financial consulting industry and the regulators are having a hard time overseeing this change. “Hats” are coming off and others are being put on and the client has no idea when the consultant has just limited himself or herself to a standard of ‘suitability’. Double dipping the client becomes a practice acceptable in the industry that shouldn’t be. Remember, just because it is lawful does not mean it is ethical.

Many perspectives have been broached in this article. The hope is that it clarifies goals and increases understanding for the common individual seeking advice in a potentially complex financial landscape. If this article has produced more questions about your financial status with your advisor, I strongly recommend you seek them out to discover what hat they are wearing so that you feel comfortable and confident with your financial goals.

*Steven K. Lewis is an Investment Advisor with Lewis & Associates Capital Advisors LLC in Holly Springs .*

