

# 10 Signs

You Are Working With The

*Wrong Financial Advisor*



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Are you working with the wrong financial advisor? Is he or she still the person best qualified to help you meet your retirement goals, or have you outgrown this advisor? It's an important question, so to help you answer it, here is a list of "10 Warning Signs You Might Be Working with the Wrong Advisor".

## 1. Your advisor ignores your changing risk tolerance

Have you asked your advisor to make your portfolio more conservative only to have him fight you on it? This is a major red flag. Most people want to invest more conservatively as they get older, and rightly so. If your advisor is pushing back, it could be because he isn't qualified to manage a truly conservative, income-generating portfolio, or because he has a financial incentive to keep your portfolio the way it is.

## 2. Your advisor isn't a fiduciary

Have you ever felt as though your advisor doesn't put your interests ahead of his own? If so, it might be time to work with a fiduciary. A fiduciary is held to the highest regulatory standards of professionalism and accountability and is legally obligated to always put his clients' interests first.<sup>1</sup> While all advisors are subject to regulatory rules and guidelines, not all are held to the standard of a fiduciary.

## 3. Your advisor uses "cookie-cutter" strategies rather than customized portfolios

Many brokers and advisors are compensated on a commission-only basis, which means they make money by selling "prefabricated" financial products like mutual funds. These advisors often work for large, well-known companies. Some other advisors might receive a fee for punching your information into a computer to generate a "cookie-cutter" type financial plan for you—one that includes a prefabricated product, for which they will also collect a commission.<sup>2</sup> By contrast, an advisor who specializes in retirement income typically has no financial incentive to recommend a prefabricated product, nor does he believe in using computer-generated "cookie-cutter" strategies. His specialty is working with each client to help create a customized portfolio.



## 4. Your advisor uses bond mutual funds

Since many of today's advisors got into the business in the 1980s or 1990s, during the best stock market in U.S. history, they continue to specialize in growth-oriented stock strategies. Frankly, if they offer fixed-income strategies at all, it's usually an afterthought. Most will simply take the easy way out and invest their clients' money in bond mutual funds. What many people don't realize is that bond mutual funds carry risks and tax implications that can be reduced and even eliminated by investing in a diversified, actively managed portfolio of individual bonds and bond-like instruments.

## 5. Your advisor is focused on assets under management

Another red flag is if your advisor seems more interested in how much of your money you are willing to allow him to manage rather than in understanding your investment needs. Assets under management (AUM) refers to the market value of the assets a financial institution manages on behalf of investors. Many advisors use AUM as a marketing tool to attract new clients. The more assets they can claim to manage, the more successful they appear to be compared to their competition. For investors, AUM can be an important consideration when it comes to the fees they pay. Prepackaged investment products can charge management fees that are calculated as a fixed percentage of total AUM, and financial advisors can also charge additional fees based on their AUM.

## 6. Your advisor leans on “the disease of ease”

Instead of taking the time to research individual securities, many advisors will simply advise you to place your money in a mutual fund to give you instant diversification. This way, if the fund performs poorly, the advisor can blame the fund manager. What’s more, the simplicity and convenience that stock and bond mutual funds offer advisors often result in additional costs and risks for investors. You might call this, “the disease of ease.”

## 7. Your advisor is addicted to capital gains

Did you know that for many years, investing for capital gains in the stock market was considered too risky for the pension fund portfolios of many cities, states, and countries, and was prohibited? Instead, each pension manager had a list of acceptable investments, which was usually made up of fixed-income options such as government bonds and high-quality corporate bonds.<sup>3</sup> The point is: If investing in growth stocks and mutual funds was considered too risky for the portfolios of many cities, states, and countries for so long, why do so many financial advisors still recommend this strategy for clients who are close to retirement age? Part of the answer may be that most aren’t qualified to manage a stock portfolio geared toward dividends rather than growth, which can help reduce your risk and allow you to grow your equity portfolio more strategically.



## 8. Your advisor doesn’t understand the risks of “reverse dollar-cost averaging”

As most investors know, the purpose of dollar-cost averaging is to get the average cost of your purchase price down so you can buy low and sell high. This strategy works well when you’re in the contribution stage of retirement investing. The

problem arises when you reach the point where you’re no longer saving into your retirement fund but drawing from it to satisfy things like your Required Minimum Distributions. In this case, the same principles of dollar-cost averaging can apply but in the opposite direction. In other words, you end up buying high and selling low. This is reverse dollar-cost averaging, and it is one of the most common and costly mistakes retirees make with their money.

## 9. Your advisor suggests a mutual fund wrap

A mutual fund wrap, or wrap account, is basically a prepackaged portfolio of mutual funds that target different styles of investing such as income or growth. These types of accounts are usually offered by full-service brokerage firms. Investors can choose from a selected list of pre-packaged mutual funds, and then pay an annual fee for the account, which is known as a wrap fee. When a broker recommends wrapping mutual funds, he is subcontracting the responsibility of monitoring and researching your investments to the fund managers. What often happens is that instead of paying the usual 0.25% or 0.50% percent fee for a mutual fund, you end up paying around 1.0% to 1.5% in fees. In essence, your broker is charging you two to three times the normal commission but is doing less work managing your investment.

## 10. Your advisor uses variable annuities

One of the top reasons to dislike variable annuities is the high fees associated with them – anywhere from 2% to 4% per year.<sup>3</sup> Investment options are typically very limited and often have high expense ratios. Variable annuities also typically lack liquidity and can tie up your money for long periods. If an emergency comes up and you need to access your money, you will be hit with surrender penalties. While there are a few situations where variable annuities might make sense, they are few and far between.

If our list has revealed that you might be working with the wrong advisor, contact us! We specialize in income-based strategies designed to help protect your principal and generate more reliable income through interest and dividends. This is income you can spend or, if you don’t need it, reinvest to grow your portfolio organically, or “the old-fashioned way,” with less worry about damaging losses that could impact your life and sideline your retirement plans!

Sources:

1. <https://www.investopedia.com/ask/answers/042915/what-are-some-examples-fiduciary-duty.asp>
2. <http://www.dummies.com/personal-finance/estate-planning/how-financial-advisors-get-paid/>
3. <https://www.bankrate.com/retirement/variable-annuities/>



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