-

BRADENTON HERALD
Bradenton.com

August 22, 2017

What is an Independent Financial Advisor

Investing

The term “Independent Financial Advisor” was originally used to describe advisors who work independently for their clients rather than representing an investment, insurance or banking company. According to Cerulli Associates, the independent financial advisor sector is the fastest growing segment in the financial services market, having grown assets in 2015 by 6.2% versus Wall Street firms, which shrunk by 1.9% in asset value. Many of the most successful investment professionals have come to realize the value of independence – both for themselves and their clients – and want to provide unbiased and independent advice. The following are some aspects that pertain to most independent advisors:

Independent Advice

Independent advisors are not tied to any proprietary funds or investment products. They have the freedom to choose from a wide range of investment products and services and to customize their solutions according to each client’s needs. This freedom does not allow for a cookie cutter approach and therefore requires an advisor to better understand each client’s unique circumstances. This ensures that they are properly aligning with their clients’ best interests.

Independent Accountability

Independent advisors tend to have the experience and dedication necessary to build a successful and self-directed practice. They often transition away from brokerage houses and private banks to better concentrate their acquired skills and provide local decision making on behalf of their clients. This new found autonomy allows them to avoid the distractions of ever changing corporate mandates to more closely align their day to day operations with their clients’ needs.

As entrepreneurial business owners, independent advisors can only hold themselves personally accountable for successes and failures. They do not receive a salary and/or bonus from a company, so they have a direct duty of loyalty to their clients. The long term viability of their businesses keeps them focused on building long term relationships.

Independent Fees

Independent advisors tend to value the pursuit of client goals over product quotas and sales goals. As such, they typically operate on a fee-based compensation model – which is simple, transparent, and incentivizes safely growing a client's assets. A fee based model does not encourage an advisor to trade, unless doing so would benefit the client. It does not reward the advisor for choosing one investment over another. It simply rewards advisors who grow assets and penalizes those that don't. When the client does well, so does the advisor's business.

Fee based advice requires an advisor to act in a fiduciary capacity under the Investment Advisors Act of 1940. This Act requires them to operate under a different and higher standard of responsibility than any other type of financial advisor. They are legally obligated to act in their clients' best interests, even if that runs counter to the firm's own interests. According to PBS Frontline article of April 2013, only 15% of financial advisors were fiduciaries.

Independent Custodian

Independent advisors rely on third party custodians, such as Fidelity, LPL Financial, Schwab, and others, to safeguard and report on the status of clients' assets. By placing your assets with an independent third party custodian, you create a firewall between your advisor and your money.

A custodian acts as a gatekeeper and watchdog for your account, allowing the advisor, by your consent, to only manage and make trades on your behalf. The advisor cannot withdraw or transfer funds to an outside account without client authorization. For many investors, this provides a reassuring system of checks and balances. Although nothing can provide 100% protection from fraud, working with an independent custodian and an independent advisor, acting in a fiduciary capacity, can greatly reduce your risk.

Gardner Sherrill, CFP, MBA, is an independent financial advisor with Shoreline Financial Partners. To learn more visit shorelinefinancialpartners.com. The opinions expressed in this material are not intended to provide specific advice or recommendations for any individual. Securities and advisory services offered through LPL Financial a registered investment advisor. Member FINRA/SIPC.

SHORELINE
FINANCIAL PARTNERS