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Bullet Points for Success...Investing, Finances, Business & Life

Avoiding Retirement Pitfalls: Who Are You Listening to?

In our free guide entitled, [6 Pitfalls of Retirement Planning](#) we bring to light the six most common areas where individuals stumble in their retirement planning goals. Today we are going to expand upon the third pitfall from our guide, which is "a lack of appropriate advice."

Who Are You Listening To?

Coming from a background where, as a young man, I witnessed my own trusting parents lose over \$100,000 in an investment scheme, this issue certainly hits home with me. The first step to avoiding the pitfall of "a lack of appropriate advice" is to know who's advice you are listening to. This begins with an understanding of your financial planner's exact job title. It can make all the difference. Let's break it down and talk about titles:

The Difference Between a Financial Advisor (FA) and a Registered Investment Advisor (RIA)

When it comes to explaining the difference between a financial advisor, broker, or wealth management consultant and a registered investment advisor, the determining factor lies in one key word... fiduciary.

A fiduciary is an individual that manages finances for the sole benefit of the client, or beneficiary. A fiduciary is bound by the highest ethical standards of the law to place the interests of the client first. A registered investment advisor is a fiduciary.

On the other end of the spectrum, the financial advisor, stock broker, or wealth management professional sounds like a trustworthy title, doesn't it? Unfortunately, the key element here is missing. These account representatives, regardless of their catchy title, are not fiduciaries. Yes, they do engage in highly visible advertising and portray themselves as having your best interests in mind when it comes to your investments. Yes, they also may have years of investment experience under their belt, but the vital element, the fact that they are not fiduciaries, prevents them from working 100% on your behalf. Let me explain...

While a fiduciary is bound by law and the fiduciary trust standard to work on your behalf, placing your financial interests ahead of their own and providing you with the best possible investment advice, a broker or wealth management consultant is not. In fact, even if a non-fiduciary *wanted* to follow the same guidelines of a registered investment advisor, they could not. Why? Because, instead of having your best interest in mind, the financial advisor is bound by contract to place the interests of their broker-dealer *before* the interest of the investor or client.

Still unsure? Here's an example:

Let's say you have \$10,000 per year to save toward retirement. Your financial adviser *could* recommend you invest these savings in a low-cost index fund which could bring a possible return of 8% per year. Thirty years from now you'd have over \$1 million dollars.

On the other hand, let's say this financial adviser could recommend a higher cost investment that is being pushed by his investment firm. If he recommends this one, you won't earn nearly as much after the same amount of time has passed, but he will earn a hefty commission for recommending it. Since you'll still be benefitting financially, this adviser technically hasn't done anything wrong. His loyalty is with his firm first and you, the investor, second. You may be missing out on a huge chunk of your potential nest egg, but since the advisor gave you 'suitable' advice, he is in the clear.

Do you see the difference here? A registered investment advisor is bound to you, while a financial adviser operating under a variety of titles, such as investment strategist, wealth manager, financial counselor, etc. is bound to the best interests of their firm. Bottom line...they are salespeople.

What Can You Do? Ask the Tough Questions

Just because the titles and terminology are muddy, doesn't mean that you can't make sense of it. Don't trust your investments or financial planning to an individual who isn't bound by law to provide you with the best possible investment advice.

Here are some questions to ask:

- Are you legally bound to uphold a fiduciary standard, acting in my best interests at all times? Are you willing to put that in writing for me?
- How are you compensated? Do you receive referral fees, commissions, or other incentives? (Even if your advisor advertises as fee-based, press him to disclose any incentives that could influence their investment advice to you.)
- Present your advisor with the fee disclosure form found on our website.

What's in a title? In this case, a title can potentially have a major impact on your retirement lifestyle and your investment portfolio. If you choose to take the advice of a financial counselor or wealth management professional who is not a fiduciary, that's up to you. We are not claiming that all are unscrupulous. Just be wise in how much control you will allow them to have.

More simple, step-by-step keys to financial success can be found by grabbing your free copy of *6 Pitfalls of Retirement Planning*, by Bryan Binkholder.

