Is it Time to Fire Your Financial Adviser?

Discover the 3 major flaws of the investment advice industry

ISACO

LET'S BUILD WEALTH TOGETHER.

Is it time to fire your adviser?

It is unfortunate but normal that a client of the investment advice industry will employ the services of an adviser who has scant understanding of or respect for the inherent uncertainties of investment. It is also a regular occurrence for the client to fail to spot the conflicts of interest that colour the advice they receive and buy products that are not suitable. What's more, the client will pay a price that makes it highly unlikely they will achieve their objectives.

In our eyes there are clearly three major flaws in the investment advisory industry:

1. **Bad practice.**
2. **Conflicting agenda.**
3. **Excessive costs.**

1. Bad practice.

Bad practice ranges from professional incompetence, including ignorance of the body of science of markets, to sharp or shady practice. Performance is everything. When you achieve strong performance, you arrive at your goals on time but without it, you won't. Traditional advisers generally aim for 7% annual growth on behalf of their clients because this is roughly the rate of return of the stock market over the last century.

However the statistics say that unfortunately 80-90% of advisers will underperform the market. Why? Our opinion is they fail because most advisers are not successful full time professional investors who study and understand the science of the markets. Many advisers are simply a "commissioned salesperson" which can often result in a conflict of interest.

One of the challenges that faces the investment advisory industry today is too many advisers have hidden agendas and act in their own interests instead of the best interests of their client. Many advisers are not impartial and recommend to their clients products that generate high commissions and some over trade on client accounts, known as 'churning.' This boosts the adviser's bank balance, but eats into client returns often resulting in the customer significantly underperforming the market.

Because most advisers underperform the market, it means the chances are that majority will achieve less than a 7% annual return for their clients.

2. Conflicting agenda

If your adviser promotes In-house products, they may have a hidden agenda. Be wary of any companies that sell any financial products that carry their own name. Why should you care? They are encouraged to sell their employers' investment products, sometimes with higher commissions. In other cases, they are restricted from selling outside offerings, even if those offerings are the best choice for meeting their client needs.

Can an advisor in this position really act in your best interests?

You have the right to know if your financial advisor is motivated to act in your best interests. Seek a firm that bans in-house financial products so that you can be confident that your investment recommendations are unbiased.

Look for a firm not owned by an investment fund, insurance company, bank, or money management company. Insist on finding a candidate that only deals in investments and financial products that are managed by outside firms.

3. Excessive costs

A study by consumer champion Which?* revealed that independent financial advisers (IFA's) are charging widely different fees for the same type of work for clients. According to the study there can be up to ten times difference in fees charged for the same type of work.

At a time when returns on investments are low due to the underwhelming performance of the stock market, investors need to pay even more attention to the value-for-money of IFA's. Financial advisers should be much more transparent in their pricing, providing details of all their charges upfront. At present it's very difficult for customers to know how much they're going to be charged, and what is reasonable. IFAs should clearly display their fees online and if they don't the regulator should step in to make this happen.

New regulations that will be introduced from 2012 called the retail distribution review (RDR) should make paying for financial advice fairer and clearer. The new regulations will ban advisers from receiving commission for new investment advice and should ensure IFA's provide the best advice to the consumer rather than pointing them in the direction of a service or product that pays the highest commission.

*Which? Finds huge variations in IFA fees –published 14th January 2012

Who should you go to?

Not all financial advisors are created equal and the majority are generalists. You can often tell an advisor is a generalist by the list of products they sell.

Financial advisors sell products to make money. Most advisors do not get paid when they give advice or develop plans. Like it or not, most financial advisors simply get paid when they sell products. Some advisors give advice and develop comprehensive plans as part of their compensation from the sale of products but in the end, they sell products to get paid.

There was a time when life insurance agents sold life insurance; banks sold bank accounts; and stock brokers sold stocks. Today, it's not that simple. For the past 20 years, there has been a convergence among these groups. Everyone is getting into each other's game and the term financial advisor has become misleading and over generalised. Stock brokers now sell insurance. Insurance agents sell funds and banks sell pretty much anything and everything.

If you want help with achieving maximum capital growth on your ISA and SIPP portfolio, it's best seeing an advisor that specialises in an ISA and SIPP long-term capital growth strategy. However if you want insurance products, see someone who really understands insurance. If you want to get a mortgage, see a mortgage broker.

Questions to ask

When it comes to investing, some people are capable of being the do-it-yourselfer while others need the help of a financial advisor. Finding the right financial advisor to work with has become just as challenging as trying to pick the right investment. There are more advisors than ever and their roles are not always clear.

The best thing you can do is give yourself choice by interviewing more than one advisor. Not all financial advisors are created equal so you have to learn to interview them. Here are some questions to help you determine the right advisor to hire.

Questions about the advisor

1. How long have you been in business?
2. Do you specialise in anything?
3. What qualifications do you have?
4. What makes you different from all the other advisors that are out there?

Questions about their business

1. What does your organisation look like?
2. How many clients do you have?
3. What does your ideal client look like?

Questions about products and services

1. What kinds of products do you sell?
2. What services do you provide?
3. What is your area of expertise?
4. Do you do financial / retirement plans?

Questions about investing

1. Who is the person who will be making the decisions about what to buy, when to buy and when to exit?
2. How many books have they read on investing in the stock market?
3. What is their investment philosophy?
4. How much time per day do they spend watching the markets and studying investment funds?
5. What do they do for investment research?
6. What is their investment outlook over the next five to ten years?
7. How do they choose investments to buy?
8. When do they exit investments and why?
9. Will they be helping me to protect my portfolio in falling markets? If yes, how?
10. How often do they trade? – and why?
11. What is their track record?
12. Have they outperformed the market?
13. If yes, which index have they beat and over what time frame?
14. Will they have their own money invested into the same investments they will be recommending for me?
15. How do they measure or judge performance?
16. Do they use performance benchmarks?

Questions about compensation and service

1. How do you get paid?
2. What fees do you charge?

3. What total fees will I have to pay directly or indirectly?
4. How often will you update me with investment guidance?
5. Will you be giving me monthly investment outlook reviews?
6. What is your preferred method of communication?
7. What is your service proposition?
8. How often will my portfolio / investment plan be reviewed?
9. Do you have client references?

Once you have interviewed two or three advisors, you can now ask the three most important questions of all:

1. Can you see developing a long-term relationship with this advisor?
2. Do you trust this advisor?
3. Can this advisor fulfill your financial needs over the next 5 to 10 years?

About ISACO

ISACO was established in 2001. Today we specialise in providing a premium investment guidance service for ISA and SIPP investors with portfolios in excess of £100,000.

Our mission is to help investors achieve better performance over the long-term, better protection in falling markets and at a better price.

Do you have a Stocks and Shares ISA and SIPP portfolio valued in excess of £100,000?

Do you seek maximum capital growth over the long-term?

Are you unhappy about the recent performance of your ISA or SIPP account?

If yes, we may be able to help. If your objective is long-term capital growth, your ultimate objective should be to outperform the stock market. The rules are simple:

1. Beating the stock market gives you a greater chance of arriving at your financial goals on time.

2. Underperforming the stock market gives you a greater chance of *not* arriving at your financial goals on time.

Beating the stock market is extremely difficult to achieve and so unless you have the time, talent and energy to do it all yourself, you are probably going to need some expert help.

ISACO's capital growth aims

Performance is everything. When you achieve strong performance, you arrive at your goals on time but without it, you won't. ISACO generally aims for 12-15% annual growth and feel confident we will achieve our aims. This is because ISACO have a strong track record of outperforming the stock market in the past which enables us to set the future capital growth aims for our client higher.

ISACO have been successful in helping its clients achieve better ISA and SIPP performance by offering investment guidance from an *investor* who has historically 'beaten' the stock market. Using a talented investor with a great track record has proved to be ISACO's secret weapon.

Investors with a history of beating the market are rare. Outperforming the stock market is extremely difficult to achieve. However beating the market should always be your number one objective when seeking long-term capital growth. *Beating the market* helps you to achieve stronger performance allowing you to arrive at your financial goals faster.

Receiving investment guidance on what to do with your ISA and SIPP investments from a talented *investor* becomes a compelling proposition when the alternative is attaining guidance from an *adviser* who normally fails to beat the stock market.

Client fee structure

ISACO charge a small one off fee of £2,995 in year one which is waivered for future years. We also charge a small service fee calculated as a percentage of your portfolio. For example for clients who have £250,000 or more, the fee we charge is just 1%.

However even though there is only a 1% difference between our fee size and traditional advisers, this slight difference could save you tens of thousands of pounds in unnecessary charges. For example a 1% annual fee charged on a £250,000 portfolio is £2,500, However if you get charged 2% annually, the fee is £5,000, a 100% increase!

Client Care

ISACO focuses on forging strong, long-term relationships and all clients receive dedicated personal assistance by assigning an ISACO investment consultant to each and every client. How you choose to communicate with your investment consultant is completely up to you. You can meet in person, by phone or online at the frequency you prefer.

Totally impartial & independent

We are a privately owned firm, dedicated to providing premium investment guidance for ISA and SIPP investors seeking long-term capital growth. As we are not owned, or part owned, by any financial services company we have no conflicts of interest.

When choosing which investment funds to buy, our lead investor looks at the future capital growth potential for the client. Together this provides truly impartial investment guidance. We also have a clear and transparent charging structure and are not tied or influenced by commission payments from any product provider.

ISACO does not sell any financial products that carry our name. ISACO bans in-house financial products so that you can be confident that our investment guidance is unbiased. We are in a position to enforce this restriction because we are independent.

We are not owned by an investment fund, insurance company, bank, or money management firm. Unlike these institutions, we only deal in investment funds that are managed by outside firms and we have no favourites. As our lead investor, recently stated during a recent interview, *"…and where we differ from financial advisers is we are totally impartial. I look to invest in exceptional fund managers who hold stocks where the big money is flowing right now."*

I hope you found value in this report.

Yours sincerely,

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