Who's Minding the Store?

A Guide Through The Maze of Investment Practitioners

Banyan Capital Management

"Hold on to the land, Scarlett, it's the only thing that lasts . . ." This paraphrase of the classic investment advice handed down by Gerald O'Hara in Gone With the Wind may make us yearn for a simpler time. Today our investment choices are becoming increasingly complex. With insurance agents selling mutual funds, banks providing brokerage services, and stockbrokers offering home equity lines of credit, the traditional distinctions among the providers of investment services have all but disappeared.

Even experienced investors find it difficult to define the exact roles of stockbrokers, financial planners, and investment counselors. This article will address the differences among these three recognized professions and other "advisors" and enable you to make better informed decisions regarding which, if any, is best suited to help you achieve your investment objectives. We will discuss varieties of nomenclature: training and regulatory practices; areas of expertise; compensation structures; selection criteria; and caveats or potential pitfalls.

STOCKBROKERS are the most visible and most numerous. Also known as account executives, financial consultants, and registered representatives, they must pass a series of examinations given by the Securities and Exchange Commission and must be individually licensed by every state in which they have clients. Depending upon the types of financial products they sell, they may also be licensed to deal in futures contracts, options, insurance, and/or real estate. While all must pass the same exam for initial registration and are governed by the same Federal and State regulatory agencies, the extent and depth of expertise vary widely. With respect to marketable securities, some must confine their comments and recommendations solely to those securities "followed" by the research departments of their firm.

Since stockbrokers are compensated almost exclusively by commission, they are necessarily transaction-oriented. Accounts with frequent activity are prized as much or more than accounts of considerable size which don't trade often. Objectivity is vulnerable to self interest.

Some relevant points to consider about employing a broker include the following: To what degree do you want to participate in the day to day investment decision making process? Do you have the time and competence to direct the management of your account? Are commission rates negotiable? How good (and verifiable) is the track record of the broker and the firm?

FINANCIAL PLANNERS offer advice on taxes, budgeting, estate planning, investments, insurance and related topics. They may be Certified Financial Planners who have successfully completed a formal course of study; they also may be attorneys, accountants, trust officers, insurance agents or even stockbrokers! Financial planners may be compensated by fees only, by commissions, or most commonly by a fee and commission combination. Again, when the advisor is compensated by commissions, the investment advice can be subject to less than complete objectivity. When working with a financial planner, consider a variety of short-term and long-term goals, with specific strategies aimed at attaining those goals. Plans may be updated annually or more frequently as circumstances warrant. A financial planner may operate independently and claim expertise in many areas or represent a firm comprised of experts in assorted disciplines. It is in your best interest to ask for credentials, references, and independent documentation of investment results when deciding whether or not to entrust your assets to a financial planner or any other investment practitioner. Be sure you understand the schedule and types of charges; the relationship and possible conflicts of interest between the planner and those who will carry out various parts of the plan (i.e. brokers, insurance agents, etc.); and the responsibility you, as a client, have for implementing and following the plan.

INVESTMENT COUNSELORS typically exercise a higher degree of freedom over the direction of client capital than either stockbrokers or financial planners. Most are identified as money managers or investment advisors, but all are compensated strictly on a fee arrangement based on the actual dollar value of the client's account. It is the investment counselor's goal to build client wealth, since in so doing the fees will increase accordingly. The counselor and client agree on a specific statement of investment policy - defining objectives, time frames for meeting those objectives and types of investment vehicles to be used. The client gives the counselor limited power of attorney over specific assets; however most investment counseling firms never physically take possession of client capital. The counselor makes all investment decisions within the framework of the statement of investment policy, reporting in writing to the client on a regular basis. To become an investment counselor, an individual or firm pays a fee and registers with the Securities and Exchange Commission, which has the right to conduct periodic audits of the counselor's client records.

If - as an experienced and sophisticated investor - you are comfortable having your cash and securities managed by someone else, you may want to employ an investment counselor. Most investment counselors set a minimum dollar value (e.g. $100,000 or more) that client accounts must satisfy. Be aware that some investment counselors may not have complete access to the new-issues market or in-depth securities research. Since they are paid to manage money, many counselors feel a predisposition always to be “fully invested” and take a long-term approach. Find out how your prospective investment counselor calculates historical and current performance. Are those calculations based on the standards of measurement suggested by the Association for Investment Management and Research or some other formula? Have those calculations been independently audited? Ask for references and be realistic in your expectations and objectives.

Where then, should you go for investment guidance? It depends on your current financial circumstances and how much responsibility you are willing to delegate for investment decisions. In all cases, however, certain criteria apply: look for stability, proven historical success and compatibility. Remember, what was great for someone else may or may not be appropriate for you and that bad advice is the costliest advice of all. Your success in investing - whether you use an advisor or not - will require patience, discipline, and hard work. As a top tennis professional recently stated: “The more I practice, the luckier I get.”

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