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## Celebrate Financial Independence

By Louis E. Conrad II, CFA

- ▶ Some individuals are resistant to hiring a professional to manage their portfolio and oversee their financial planning needs, including retirement planning and education funding.
- ▶ However, a competent financial advisor can assist you in meeting your financial goals by establishing a prudent path and ensuring you don't stray from it.

With Independence Day upon us, you may want to celebrate your own independence from overseeing your investment portfolio and financial planning needs by hiring a professional. Too often I meet with prospective clients who have worked hard to save money, but who have not worked with a competent financial advisor to the detriment of their investment portfolio and financial planning needs. You may have the best of intentions, but a lack of knowledge, discipline, and time can work against you and place your financial goals at risk. Just as you visit a dentist for dental work, you may want to consider hiring a financial advisor to assist you in meeting life's critical financial goals.

This article answers questions often posed by those who are considering the services of a financial advisor, financial planner, or wealth manager. Here we use the generic term financial advisor to refer to any of the above who offer investment and financial planning-

related services.

1. What are the benefits to working with a financial advisor?

The benefits can vary depending on you and the financial advisor, but generally speaking, a financial advisor offers in-depth knowledge of the subject matter involved and keeps abreast of the best practices in the investment and financial planning realms. This knowledge base, combined with a keen sense of judgment, is a critical factor in providing you with competent advice. In addition, advisors subscribe to numerous, complex software products that can enhance the level of advice and service you receive as a client. An advisor's disciplined approach is also important to avoid the emotional decisions too often made by individuals who lack objectivity.

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# Celebrate Financial Independence, continued

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A good financial advisor should be able to evaluate your situation and offer you various options to meet your financial objectives. Ultimately, you benefit from the creation of a plan that is designed to meet your financial goals and which acts as a benchmark to evaluate the progress toward your goals.

Perhaps more importantly, hiring a financial advisor can remove one burden from your life and allow you to spend your time pursuing your career, spending time with your family, or enjoying other activities to enhance your life.

## 2. What services are typically offered?

Though most financial advisors focus their efforts on managing investment portfolios, many advisors also offer a range of financial planning services.

Professional management of your investment portfolio usually involves establishing a structure, or an asset allocation and diversification plan, that is based on the risk that you are willing to undertake for your portfolio. This structure is designed to provide discipline to the investment process and avoid the emotional decisions as mentioned above that lead to subpar investment returns.

Advisors may also offer financial planning services, such as retirement planning, education funding, gifting strategies, and stock option planning. Depending on the focus and size of the firm, it may also offer estate planning, tax planning, and insurance, or offer to refer you to competent professionals in these fields.

Two of the most often pursued financial planning services are retirement planning and education funding. Retirement planning attempts to answer two general questions: before retirement, how much money do you need to save to ensure sufficient assets for the balance of your life, and during retirement, how much money can you afford to spend without depleting your assets? Education funding involves determining the most appropriate type of investment account, as well as how much in savings is likely to be needed for the projected educational costs.

## 3. How much does it cost?

The cost for financial advisory services depends on the financial advisor's business model and compensation scheme. Generally, there are two different business models and two different compensation schemes. A financial advisor comes in two flavors: (1) one who has a legal, fiduciary responsibility to act in their clients' best interests or (2) a broker, whose standard of care is one of suitability, or offering products that are deemed to be suitable for the given client's situation. The first type of advisor tends to "fee-only" and may be more advice oriented. Fee-only compensation is based on either an hourly rate, a fixed fee, or a percentage of investment assets overseen. The typical percentage charged is 1% annually, though greater investment balances are charged a lower rate. A broker, the second type of advisor, receives commissions based on sales of financial products.

Most financial advisors have minimum investment asset requirements, which usually begin at \$250,000, but may be as high as \$2 million or more, depending on the firm.

You should be aware that an advisor's fee may be a deductible expense on your federal income tax return. Further, if your financial advisor invests your assets in mutual funds, they may also have access to institutional versions of many common mutual funds that can save you 0.25% - 0.40% in annual mutual fund costs.

So consider celebrating financial independence by hiring a professional to oversee your investments and financial planning needs. It may also free up your time to enjoy summer days like these.