CHOOSING A FINANCIAL ADVISOR

Prepared By

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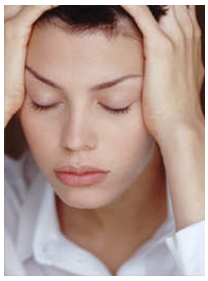
Common Concerns

Do any of these sound familiar?

"I make plenty of money but it all goes to support my family's lifestyle. Considering how much money I earn, it's amazing how little I've been able to save for retirement and my children's education."

"I'm confused by conflicting advice from my current advisor, my friends, and the media."



"I'm tired of the stress that financial issues are putting on my relationships. All we do is fight about money, if we talk about it at all."

"I'm not really sure if my investments are doing as well as they should or whether they're appropriate for my goals and risk tolerance."

"I don't have the time, interest or confidence in my ability to effectively manage my financial affairs. I need someone I can trust to help me organize and manage my financial affairs."

The more successful I've become, the more complex my life and financial affairs have become. I need someone to help me understand the things I need to know about my tax situation, investments, insurance and estate plan, and to help me make smart financial decisions.

I hate to admit it, but I'm so overwhelmed by the complexity of financial and estate planning that I haven't done anything (or enough) to protect my family in the event I die or become disabled, put my children through college or plan for my wife's and my retirement."

"New job... children... inheritance. My life is changing, and I'm overwhelmed by the decisions I need to make."

"How can I leave lasting legacies for my children, grandchildren and favorite charities and institutions?"

"How can I be sure that the wealth I've accumulated will provide for my children and grandchildren instead of being lost to taxes?"

"How can I be sure that my children won't squander their inheritance and that they'll use it to lead healthy, productive lives?"

If you share any of these common concerns, perhaps you could benefit from working with a financial advisor like Steel Peak Wealth Management.

What Financial Advisors Do

Most people are not financial experts. They know that planning is vital, but don't have the time, the desire, or the expertise to make tough financial decisions and effectively manage their financial resources. As a result, they are often unsure about whether they are doing the right things to meet their financial goals and secure their family's financial future. How about you?

Are your financial affairs in order or are you overwhelmed by their complexity? Do you have time keep up with each new tax law, investment opportunity, insurance product and financial planning strategy? Are you confident that you are on the road to financial independence or unsure about your family's financial future? Perhaps you could benefit from working with a financial advisor.

A financial advisor can simplify your life and provide you peace of mind by:

- Helping you understand the complex tax, legal and financial issues that affect you and your family
- Helping you make smart financial decisions
- Helping you organize and manage your financial affairs
- Providing solutions for your financial concerns
- Helping you develop and implement a plan to meet your life goals and aspirations
- Helping to ensure your family's long-term financial security and independence
- Serving as the quarterback of your team of legal and financial advisors
- Providing and/or supervising all aspects of your wealth management and financial planning needs

In addition, your advisor can help you understand the advice you receive from your accountant, attorney and other advisors, and coordinate it with our own financial planning and investment management expertise, so that you'll feel confident and have a clear direction to follow. If needed, they can also recommend experienced legal and financial professionals to meet your personal needs and objectives.

By working with a financial advisor and relying on his or her knowledge, experience and expertise, you'll spend less time laboring over your financial affairs and more time doing the things you enjoy most in life. You'll know that your affairs are in order and that your family is financially secure; and you'll feel confident about your financial future.

Do You Need a Financial Advisor?

***Do you really need a financial advisor*?** Your answers to the following four questions will help you decide.

1. **Do you have a high level of financial expertise?** Financial planning involves a lot more just selecting the right investments. It's a complex process that requires specialized expertise in areas like taxes, insurance, investments, retirement, income, education and estate planning, as well as painstaking attention to detail.

2. **Do you have time to effectively manage your financial affairs?** To effectively manage your financial affairs, you need to know what's happening in the global economies and financial markets, have time to research and evaluate new investment opportunities, insurance products and financial strategies, know how to select the best, most appropriate investments and insurance products for your individual needs and objectives, monitor your investments, stay on top of any changes in tax laws that will affect your financial planning and a host of other complex, time-consuming tasks. Anyone who thinks they can effectively manage their financial affairs in one or two hours a week is mistaken and potentially jeopardizing their family's financial security.

3. **Do you believe you can produce the same results as an experienced, trustworthy professional?** It's true that many investors produce better returns than *bad* advisors. But very few produce better returns than high quality professionals. At our firm, we employ unique, innovative, effective and time-tested investment strategies to meet our clients' return objectives and help them meet their financial goals. We also provide our clients access to investments, exceptional money managers and investment strategies that most people (including financial advisors) had never heard of, some of which are not normally available to retail investors. Beyond investing, we have the specialized financial expertise required to help our clients protect and preserve their life savings, minimize taxes, increase the magnitude and longevity of their wealth and ensure their life-long financial security. If you think you can do the same with limited financial knowledge with only one or two hours a week, think again!

4. **Is your reluctance to hire a professional based on a bad experience with a previous advisor?** If your answer is yes, it's likely that you didn't know what to look for when choosing a financial advisor and that you entrusted your assets and financial security to a low quality advisor who "sounded" good. That's easy to do, because probably 85% of all advisors are not the investment experts they say they are.

If you answered No to <u>any</u> of the first three questions or Yes to question number four, then you will benefit from working with an experienced financial advisor.

Remember: It’s always easier and more effective to hire an experienced, trustworthy professional than to spend thousands of hours trying to learn to do the professional’s job yourself. You just have to make sure that you hire the right professional.

Choosing the Right Advisor

Selecting the right financial advisor for you and your family is the single most important decision you will ever make for your financial future. That's because your advisor will influence or control all of your financial decisions. The quality of the advice you receive will determine your standard of living during retirement and your financial security late in life when you need it the most.

A good advisor can help you minimize taxes, improve your investment returns, meet financial goals, maximize your financial resources, ensure that your financial affairs are in order and provide you comfort, peace of mind and life-long financial security. On the other hand, a bad advisor can cost you a fortune in excess or unnecessary taxes and jeopardize your family's long-term financial security. That's why it's critical that you know what to look for when choosing a financial advisor.

The Two Most Common Types of Advisors

There are basically two types of financial advisors: **Fiduciary Advisors** and **Sales Representatives**. Each has its own unique characteristics.

Fiduciary Advisors are licensed as a Registered Investment Advisor (RIA) with the SEC and/or the states in which they do business. They are held to the highest ethical standards and are required by law to put their clients' interests ahead of their own. They are also required to disclose any potential conflicts of interest at the outset of their advisor/client relationship and on an ongoing basis.

Most Fiduciary Advisors are compensated with fees to help their clients meet their financial goals. Most charge a flat fee for financial planning services and an annual asset-based fee (assessed quarterly) for investment management. By charging an asset-based fee for investment management, the Fiduciary Advisor's compensation is closely tied to the performance he delivers for his clients in accordance with their objectives, risk tolerance and investment time horizon.

Most Fiduciary Advisors are independent and do not sell proprietary financial products. As independent advisors, they are free to recommend whatever products, services and strategies they believe will be most effective in helping their clients meet their financial goals. They also have greater liability for the quality of their advice.

Some Fiduciary Advisors are duly licensed as a Registered Investment Advisor <u>and</u> a Registered Representative of an independent or major brokerage firm. Most often, they charge a fee for the financial planning and investment management services they provide as an RIA and receive commissions for insurance and investment products sold through their affiliated broker dealer. As long as the advisor is a *Registered Investment Advisor*, he is held to the same high ethical standards as every other Fiduciary Advisor.

Steel Peak Wealth Management is a Fiduciary Advisor.

Sales Representatives are stock brokers and insurance agents who most often work for large, well-known banks, brokerage firms and insurance companies. They are paid commissions for selling you stocks, bonds, CDs, mutual funds, insurance and other financial products, usually without ever having to demonstrate the value of their recommendations or

the financial products they're selling. At times, they can receive additional compensation for selling their firm's proprietary products or certain products from other financial services companies without having to disclose their additional incentive or compensation to you.

With "up-front" commissions for mutual funds and annuities ranging anywhere from 3% to as much as 10%, the average Sales Representative can earn as much from one product sale as the typical fee-based Fiduciary Advisor will earn over a five to ten-year period, no matter whether the product meets your needs and expectations or not. The more products they sell you, the more they can earn.

Although Sales Representatives are supposed to make suitable recommendations, they are not held to the same high ethical standards as Fiduciary Advisors. They are NOT legally required to put your interests ahead of their own, nor are they required to disclose potential conflicts of interest unless you ask. When you consider that the average Sales Representative must earn enough money to support himself and his family and must also produce enough revenue for his employer to keep his job, you can understand why it's so hard for Sales Representatives to put your interests ahead of their own. But that doesn't help you.

For years, the brokerage industry has fought against legislation that would require Sales Representatives who provide fee-based accounts to be held to the same high ethical standards as Fiduciary Advisors. In order to avoid that fate, the brokerage industry has agreed that its Sales Representatives will only make "*recommendations*" and will not provide "*advice*." In addition, brokerage firms that offer fee-based accounts are required by law to prominently disclose the following on forms, applications and advertising literature:

"Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits and our salesperson's compensation may vary by product and over time."

Although this information is supposed to be prominently displayed, it is most often buried in the fine print. Notice that Sales Representatives and the firms for which they work are not required to disclose conflicts of interest, your rights or their obligations unless you ask. Are you getting the picture?

Selecting the Best Advisor For You and Your Family

When comparing Fiduciary Advisors to Sales Representatives, it's easy to see why you should only work with a Fiduciary Advisor like Steel Peak Wealth Management. Entrusting your life's savings and financial future to a Sales Representative who is unwilling or unable to put your interests ahead of his own and be held to the highest ethical standard could be hazardous to your financial well-being and long-term security.

Fiduciary advisors are paid to help you meet your financial goals. Sales Representatives are not.

Fiduciary Advisors are required by law to put your interests ahead of their own and disclose all potential conflicts of interest. Sales Representatives are not.

Fiduciary Advisors' compensation is generally tied to *your* success in meeting your financial goals. A Sales Representatives' compensation is tied only to *his* success in selling you financial products and services. Sale Representatives are also rewarded with vice president titles and private offices for their success in selling financial products and generating high revenues for their firms, NOT for their success in helping you meet your financial goals. You and your interests are clearly secondary.

In addition, according to the statistics published in an article in the February 2006 issue of Registered Rep Magazine, the average Fiduciary Advisor (specifically a Registered Investment Advisor) is 10 times more likely to act in an ethical manner than the average Sales Representative. According to the article: "On average, the NASD brings more than 1000 disciplinary actions and cashiers 700 unfit brokers and broker dealers from the industry every year. By comparison, there were (only) 95 civil actions filed in federal court and administrative proceedings against RIAs (including asset managers) in 2005."

Perhaps that's why, in spite of the sales and marketing advantages held by the large banks, brokerage firms and insurance companies, recent studies have shown that the vast majority of high net worth individuals and families prefer to work with independent Fiduciary Advisors like Steel Peak Wealth Management.

As a Fiduciary Advisor, we are paid to provide you financial advice, help you achieve your financial goals and ensure your life-long security, NOT to sell you financial products. Because we are held to a legal, fiduciary standard, you can be sure that we'll put your interests ahead of our own, disclose any potential conflicts of interest and recommend only those financial products, services and strategies that we believe to be best and most appropriate for your individual needs and objectives.

Do You Need More Than One Advisor?

It's surprising how many successful people do not have a single, comprehensive plan to minimize taxes, maximize portfolio returns, minimize the impact of market declines, protect their income, meet personal financial goals, increase the magnitude and multi-generational longevity of their wealth and ensure their family's life-long financial security. Instead, they prefer to maintain multiple portfolios at several different investment firms and work with multiple financial advisors. When asked why they've chosen this strategy, many say that they aren't comfortable putting all their eggs in one basket and would rather manage risk by diversifying among several different advisors and firms. Here's why that's a bad idea.

Why Having Multiple Advisors Increases Your Financial Risk

It would seem to make sense that diversifying your investments among a number of financial advisors with different investment strategies and philosophies would provide the same risk reduction benefits as diversifying your investment portfolio among different asset classes such as stocks, bonds, commodities and real estate. But investing that way doesn't lower risk, it actually increases it!

When multiple advisors are familiar with only a fraction of your wealth, their investment recommendations will be limited to just the universe they manage, and your overall portfolio will likely suffer. Advisors who operate independently of each other will be unaware of your total portfolio and cannot possibly recommend a mix of assets that's appropriate for your needs and objectives and protects your wealth and family over the long-term.

By comparison, if you hire one wealth advisor who works for a firm with an *open architecture*- meaning the advisor is not limited to only proprietary funds and managers but is able to buy any investment, fund or manager- you are more likely to own a more diversified portfolio that experiences less volatility. Why? Because one wealth advisor will be better able to manage the two biggest threats to your portfolio- an inappropriate asset allocation and unwanted overlap and conflicts- as well as having appropriate checks and balances among the investments, funds and managers you own.

When you spread your financial assets among more than one firm and financial advisor, you put yourself in the position of having to oversee all of your financial assets and affairs as if your were your own professional financial advisor. You would have to evaluate and monitor your overall asset allocation (all investments and portfolios combined) to be sure that it was appropriate and in accordance with your goals, time horizon and tolerance for investment risk. You would need to determine a frame of reference with which to evaluate the performance of each financial advisor and monitor their portfolios on an ongoing basis to ensure that each advisor and his individual investments and strategies were performing in line with your expectations. You would also need to monitor your portfolio for tax-efficiency to ensure that each advisor was implementing strategies to minimize taxes, especially short-term capital gains. At the end of the year, you would also need to work with each advisor to determine the best investments to sell for the purpose of tax-loss harvesting (realizing capital losses to offset realized capital gains elsewhere in your portfolio). As you can see, there are a lot of issues to consider when managing a large investment portfolio, not to mention all of the other critical tax, insurance, retirement, education and estate planning issues that must be addresses and managed on an ongoing basis. The greater your wealth, the more complex those issues become.

If you've determined that you don't have the time, the desire of the expertise to effectively manage your financial affairs and that you need a financial advisor, why would you implement a financial strategy (diversifying your investments among more than one financial advisor) that puts you in the position of having to be your own financial advisor? It makes no sense, increases your financial risk and could potentially jeopardize your financial success and security.

One Advisor, One Plan

The best strategy is to hire one experienced, knowledgeable and trustworthy financial advisor to oversee all of your financial affairs, help you manage your finances more effectively and develop a comprehensive plan to meet your financial goals and ensure your family's long-term financial security and independence. Even the world's wealthiest families believe in this concept and employ one independent financial advisory firm or "family office" to oversee all of their financial affairs.

Naturally, we at Steel Peak Wealth Management. would like to be your one financial advisor and provide you comfort, peace of mind and life-long financial security.

For more information, please call us at (818)835-8755 or visit us on the web at www.steelpeakwealth.com.