WE FAMILY OFFICES

BUILDING YOUR WEALTH ENTERPRISE.

Cut Through the Clutter!
How toTell the Difference Between Advisors

The choices facing wealthy families when selecting a wealth advisor can be overwhelming and confusing: How do you choose among the hundreds of private banks; trust companies; asset managers; brokerage firms; single- or multi-family offices; and investment advisory firms that advertise wealth management services? Bombarded with marketing material, it can feel overwhelming (sometimes impossible) for clients to discern the significant differences that exist between firms with very similar marketing messages: "Objective advice." "Conflict-free." "Open architecture." "Fee-only." "Same side of the table..." Do these terms sound familiar?

Further complicating the decision is the fact that the right choice for one family may be the wrong choice for another. **How can a family be certain which kind of wealth advisory solution is right for them?**

Our objective in this series is to help wealthy families understand the choices they face, how to cut through the "noise" and tell the difference between firms so they can choose the firm, or combination of firms, that is right for them.

In this paper, we lay out a basic framework for thinking about wealth advisory firms and the role they can play for your family. Broadly speaking, there are three types of wealth advisors, classified by the services they provide their clients:

1. Advisors that manufacture financial products
2. Advisors that distribute financial products
3. Advisors that are independent, fee-only fiduciaries

While many firms play more than one of these roles, it is critical for families to understand the different business models and interests of each. The subsequent papers in this series will describe the practical implications of working with each type.

// MANUFACTURER

Manufacturers create and sell financial products. Typical examples are investment funds like a mutual fund company, private equity firm, or hedge fund. Manufacturers sell to investors (clients), either directly or through distributors, which are typically banks or brokerage firms. These distributor-intermediaries may be affiliated with the manufacturer or have agreements with the manufacturer to distribute their investment products for a fee paid by the manufacturer. Manufacturers are typically compensated with investment management fees paid by investors (clients).

// DISTRIBUTOR

Distributors sell investment products and services to their clients and customers. Common examples of Distributors are: private banks, brokerage firms and trust companies. Distributors source investment products from manufacturers, which are often their affiliates, or if they are "open architecture," from non-affiliated manufacturers. Distributors often have arrangements in which manufacturers pay the distributor a fee to sell their products to the distributor's clients. These distribution agreements often exclude other investment products from the distributor's menu of available investments. Distributors often receive fees from both their customers (including sales commissions), and from the manufacturers (distribution fees) whose products they sell.

// INDEPENDENT FEE-ONLY FIDUCIARIES

A fee-only, independent, SEC-registered adviser has three primary characteristics, which often define their service offering to clients and distinguish them from other types of advisers:

1. They have a legal obligation to put their clients' interests ahead of their own;
2. Their compensation structure can remove the actual or potential conflicts that arise from sales-based compensation; and
3. Their independence from any manufacturer or distributor allows them to assess the client's needs, and then recommend and source financial products and services that are right for the client, without the added complications of a sales agenda.

While many manufacturers and distributors provide sound advice, these three distinctions that characterize an independent, fee-only, fiduciary adviser can help create a significantly different client experience and relationship. Advice provided by this type of adviser should not lead to sales or commissions, as is common with advice from manufacturers or distributors.

Common examples include: fee-only unaffiliated multi-family offices, outsourced CIOs, independent financial planners, and unaffiliated registered investment adviser firms.

In summary, the key to understanding the difference between wealth management service providers is understanding their primary source(s) of compensation.

Type Of Advisor	Role	Primary Source(s) Of Compensation
Manufacturer	Create and **sell** investment products	• Asset management fees from investors
Distributor	Provide advice to clients and in the process sell investment products manufactured by affiliates and/or others	• Asset management fees from clients; • Sales based commissions and fees; • Distribution fees from manufacturers
Independent Fee-Only Fiduciary	Help clients understand which products and services are right for them and help them manage the various manufacturers and/or distributors	• Advisory fees from clients

While determining whether a financial advisor owes its clients a fiduciary obligation is a very important factor to consider when evaluating a particular advisor, it is also critical to get answers to the following two questions:

1) Is this advisor's compensation based in whole or in part on the products and services they recommend to me? and

2) Does this advisor have agreements or an affiliation with (i.e., a financial interest in) a company or companies that sell financial products and services?

Unfortunately, in the wealth management space, the distinctions between "advisors" are not so clear and often times manufacturers or distributors position themselves as if they were independent, fee-only fiduciary advisers. This can lead to unfortunate outcomes for families who think they may be getting objective advice, but instead are often being sold expensive financial products and services without being clearly told about the firm's financial interest in the sale.

One of the most important steps in evaluating which wealth managers to hire (or the ones you currently work with) is to understand the business model and interests of each. The framework outlined above can help you make that determination. The next white paper in this series will look at the practical implications of hiring each type of firm.