What's The Difference?

All advisory firms are set up the same, right? I am the first to admit that the financial services industry has developed a less than satisfactory reputation. In many, many cases I believe that reputation is well earned. Early in my Navy career I worked with a broker that helped me formulate that negative mindset. Talking to others with their own horror stories and reading about various cases of fraud and abuse led me to conclude that the industry in general was . . . well, slimy. Not wanting to associate myself with such a nefarious group, I initially avoided a post-Navy career in this field, however, I saw a real opportunity to help people that may be leaning the same way I was back then. With that in mind, I decided to face my fear of the notoriety in the industry and join it to make the biggest difference that I could.

Back when I joined the Armed Forces, it was to serve a higher purpose and mission. After completing active-duty service, I began my search for a job in the civilian sector and realized how important a clear higher purpose and mission was when choosing my path. For me personally, job satisfaction cannot occur without them. That is why over 15 years ago, helping folks honestly and fairly with their finances became my mission, and it is our company's mission to this day. Our vision, or higher purpose, is to liberate our clients from financial concern.

How do you combat a bad industry reputation? We believe it starts with building trust with your clients, understanding your mission and higher purpose, and delivering service consistently. You start by choosing a sound structure for your company to deliver those services and minimize conflicts of interest. And yes, you do have options as a firm owner.

1. Embrace the Fiduciary Standard. The general definition of a fiduciary in the financial services industry is an advisor that *must* work in the client's best interest, and not their own. Sadly, not all financial professionals are required to adopt this fiduciary standard. A registered Investment Advisor refers to a firm that is registered with either their state regulatory agency or the Securities and Exchange Commission (usually depending on the firm's size). All registered Investment Advisors are subject to a piece of legislation called the *Investment*

Advisors Act of 1940 – a must read for advisors and insomniacs, alike. Bottom line, it defines standards of conduct and obligates Investment Advisors to adhere to a fiduciary duty for putting client's interests first. That obligation also extends to every registered representative of those firms. Want to know if a financial advisor is a registered Investment Advisor? Go to https://adviserinfo.sec.gov/ to look them up.

Believe it or not, some financial services firms are only required to satisfy what is known as the Suitability Standard. These standards are defined by Financial Industry Regulatory Authority (FINRA) rule 2111. In short, "suitability" just means that the recommended investment is suitable for the client based on a certain set of parameters. It does not solve for potential competing interests and allows a firm to recommend its proprietary investments, or those that will pay the highest commissions, rather than recommending other investments that may also be suitable but better aligned with the clients' best interests regarding expenses, liquidity, share classes, etc. Many broker-dealers and their representatives are organized so that they are only subject to the suitability standard.

2. Have the right compensation structure - there are many.

   Commission-Based: This structure pays the advisor a commission based on the products they sell – i.e. insurance products - or through the act of transacting on behalf of their clients (transaction fees). Revenue is generated by buying and/or selling securities in clients' investment accounts. Investments that are bought and held for long periods of time may generate less revenue for an advisor who is only paid by transaction fees, thus creating an incentive for trading to occur even if doing so is not in the best interest of the client's portfolio.

   Fee-Based: This structure is typically associated with – or shall I say confused with - an asset-based fee. Basically, a fee-based advisor can assess fees based on client assets *or* via commission-based products. The term "fee based" is typically associated with hybrid firms that function as both a registered Investment Advisor and a broker-dealer. These firms may receive commissions on products sold, as well as charging their clients a percentage-based fee on the assets they manage.

Fee Only: A financial advisor may only call themselves a "fee only advisor" if they *ONLY* receive fees from their clients. There can be no commissions paid from products sold, nor can there be fees collected through investment companies by way of direct revenue sharing (think 12b-1 fees or loaded mutual funds that pay a share of the fund's revenue to the advisor that sells them). No compensation may be accepted from any source other than the client. There are really only three ways that a fee only advisor collects fees:

Hourly: assessed on actual hours spent on servicing a client and developing the financial plan.

Retainer: estimated monthly or annual fee based on how much time the firm believes will be spent servicing you and your investments.

Asset-Based Fee: A percentage of the assets under management (or the client's net worth.)

At Statherós Financial Solutions we are an Investment Advisor registered with the Securities and Exchange Commission, we are not affiliated with a broker-dealer, and we are also a *fee only advisor*. Our fees are calculated on the total of your assets that we manage. The amount of fees you pay us only increases if the total of your assets that we manage increases.

While no firm or fee structure is conflict free, we believe earnestly that the way we have chosen to structure our firm, and being transparent and accountable to our clients, is meaningful. Not only is it meaningful but it is the foundation to building trust and that makes all the difference.

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