10 SIGNS YOU ARE WORKING WITH A TRUE RETIREMENT INCOME SPECIALIST

Poole Locke Associates

Retirement Income Source®

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Not all financial advisors are created equal. Many say they specialize in retirement planning, but only a select few have the tools or training required to make them a true retirement "Income Specialist." How can you tell whether your advisor falls into this elite category? Here are 10 signs to help you identify a true Income Specialist:

1: He listens to your concerns

If you've asked your financial advisor to move your assets into more conservative investment vehicles, such as bonds and bond-like instruments, and he didn't fight you about it, then you might be working with a true retirement Income Specialist.

Income Specialists know that as you approach retirement, there is a very important "shift" you need to make in your finances, which involves shifting your strategic focus from investing for growth, or capital appreciation, to investing for income. Failure to make this shift is often the reason people fall short of reaching their long-term financial goals.

Unfortunately, since many of the advisors working today first got into the industry during the 1980s and 90s, in what was the fastest-growing stock market in U.S. history, many became stock market specialists focused on chasing growth. Since their clients were participating in the market through mutual funds, many of these advisors also became overly dependent on mutual funds. Few know how to invest for income the right way through interest and dividends.

Many advisors today would prefer to keep your money invested in a mutual fund, where they can sit back and let the fund manager do all the research and heavy lifting, while the advisor collects a fee or commission for simply placing your money into the fund. In other words, the advisor might be more concerned about setting up streams of income for himself rather than you. That brings us to item #2 on our list.

2: He always puts your interests first

If you never have to wonder whether your advisor is putting your interests ahead of his own, you might be working with an Income Specialist who is a fiduciary. Certified Financial Planners and Registered Investment Advisors take a pledge to put their clients' interests ahead of their own. This is known as acting as a fiduciary. Traditional stockbrokers aren't held to the same standard, even if they've given themselves the title of financial advisor.

So, if you are working with a true Income Specialist, you can rest assured knowing your interests will always come first, because a true Income Specialist is a financial advisor who is also a fiduciary.

3: He never pushes prepackaged products

If, instead of relying on prepackaged investments like mutual funds, your advisor takes the time to create a customized portfolio of individual securities to meet your needs, you might be working with a true retirement Income Specialist. Here it's important to understand the different ways stockbrokers, financial advisors, and Investment Advisor Representatives (IAR), who are part of Registered Investment Advisory (RIA) firms, are paid. IARs are compensated on a fee-only basis. A big benefit to hiring an Investment Advisor Representative who is part of an RIA is that they have no financial incentive to recommend a "prepackaged" product. They recommend what they feel is in your best interest.[1]

On the other hand, many brokers and advisors are compensated on a commission-only basis. This means that they make money by selling "prefabricated" financial services products, like stock mutual funds or bond mutual funds. Another type of compensation structure is known as commission and fees. Commission and fee-based advisors might receive a fee for punching your information into their computer to generate a financial plan for you and then will collect a commission when they sell you that prepackaged investment product.

You can help avoid wondering why your advisor is recommending certain products by working with an Investment Advisor Representative (IAR) who is part of a Registered Investment Advisory (RIA) firm.

4: He prefers individual bonds over bond mutual funds

If your advisor avoids bond mutual funds because he or she knows they don't offer the two guarantees that individual bonds offer, then you might be working with a true retirement Income Specialist.

Since many advisors working today got into the business in the 1980s and 90s, they became stock market specialists, as we noted earlier. Frankly, if they do fixed income, it's usually an afterthought. Most will just take the easy way out and invest client money in bond mutual funds.

What many people don't realize is that bond mutual funds carry risks and tax implications that can potentially be reduced by investing in a portfolio of individual bonds, or other bond-like instruments. When investors buy an individual bond, they receive two important guarantees. They're guaranteed a fixed rate of interest for the life of the bond, and when the bond matures, they're guaranteed to get the face value back—assuming there have been no defaults. Neither of these guarantees exists with bond mutual funds. This is why a true Income Specialist will favor individual bonds to help satisfy their clients' fixed income needs.

5: He doesn't worry about Assets Under Management (AUM)

If, rather than focusing on how much of your assets he can manage for you, your advisor is more concerned about informing you of all the income-generating options available to help meet your long-term financial goals, you might be working with a true retirement Income Specialist.

For investors, AUM can be an important consideration when it comes to the fees they are charged. Prepackaged investment products can charge management fees that are calculated as a fixed percentage of AUM.

Financial advisors can also charge their clients fees that are based on total AUM. This can help to explain why some financial advisors seem to be chomping at the bit to get as much of your assets as they can under their control.

6: He avoids mutual funds and "The Disease of Ease"

If, instead of taking the easy way out and placing a significant portion of your portfolio in mutual funds, your advisor takes the time to create a customized portfolio of individual holdings best suited for your specific needs, then you might be working with a true retirement Income Specialist. Instead of taking the time to research individual securities, some advisors will recommend a mutual fund to give you instant diversification. Unfortunately, the simplicity and convenience that mutual funds can provide to advisors come with additional costs and risks to investors. You might call this "The Disease of Ease."

We already discussed the fact that when an investor buys an individual bond, they receive two important guarantees: a fixed rate of interest for the life of the bond, and the return of the bond's par value when it matures, assuming no defaults. With bond mutual funds, neither of these guarantees exists.

With stock mutual funds, one of the biggest risks is market volatility. Let's say the market is down when you need to withdraw funds to cover some expenses. If you're invested in a stock mutual fund, you could be forced to liquidate more shares of your fund to generate the money you need. To learn more about why this could lead to a big problem, see #8 on this list.

Another major problem with relying on mutual funds is the high costs associated with them. The fee structure on most mutual funds can be very complex, and in the end, these fees can end up eating away the gains the fund manages to earn.

7: He doesn't use tired old Wall Street cliches

If your advisor has never said, "The only way to invest for retirement is in the stock market," or "It's not about timing the market, it's about time in the market," then you might be working with a true retirement Income Specialist.

A true Income Specialist knows that as you get within 10 years of retirement, it makes sense to start reducing your exposure to stock market risk. For people who have a higher risk tolerance and want to stay in the market, it's still a good idea in most cases to shift your strategic focus from portfolio growth through capital gains to retirement income and more strategic growth through stock dividends.

8: He understands the danger of “engineering” income through withdrawals

If your advisor has never recommended that you liquidate shares of your investments to generate income for retirement, then you might be working with a true retirement Income Specialist.

Income Specialists are aware of the dangers of having to liquidate shares of your investments to help “engineer” retirement income. They know it could lead to the cannibalization of your retirement savings.

Many investors are familiar with the term dollar-cost averaging. The idea is to consistently invest the same dollar amount over time, so that when the market is down, you can purchase more shares of an investment. Over time, this can help to reduce the average purchase price per share, so you can buy low and sell high — which is the cornerstone of good investing.

This strategy works well when you’re in the contribution stage of retirement investing. The problem arises when you are no longer saving into your retirement fund, and you decide to withdraw from it to cover expenses. If you end up using this strategy when the market is down, you’ll probably be forced to liquidate a greater number of shares to help engineer the income you need. In other words, you’re selling low, which is the opposite of what you want to do. This is known as “reverse dollar-cost averaging” and it’s one of the biggest financial mistakes you can make in retirement.

A true retirement Income Specialist knows all this and will work with you to invest your hard-earned savings in a way designed to help protect your principal and generate renewable streams of income through interest and dividends.

9: He won’t “double dip” you with mutual fund fees

If your current financial advisor has never added on additional fees or commissions for simply placing your money into a few mutual funds, then you might be working with a true retirement Income Specialist.

All mutual funds have embedded management and administrative fees, plus other types of charges like 12b-1 fees. But sometimes you run the risk of being “double dipped” by an advisor who also charges you a fee or commission just for placing you in the fund. That’s right. Although the fund manager is the one conducting all the research and selecting and managing the investments in that fund, many advisors will tack on an additional fee for his role in selecting the fund.

This is like taking your car to a mechanic who charges you a fee to find another mechanic (whom you also have to pay) to actually fix your car. Most people wouldn’t knowingly do that, yet many are doing something similar when it comes to mutual fund fees.

In essence, a broker could charge you twice the normal commission, while really doing little work managing your investment. It’s a great deal for the broker, but not so good for you. This is why a true Income Specialist will avoid mutual funds and will do the research to create an actively managed portfolio of individual securities for their clients.

10: He avoids the risks of variable annuities

If your advisor knows that variable annuities can leave you exposed to much of the risk of the stock market, in one of the most expensive ways possible, then you might be working with a true retirement Income Specialist.

In addition to offering limited investment options, variable annuities can also carry high fees of anywhere from 2-4% per year.[2] Variable annuities also typically lack liquidity and can tie up your money for long periods of time. So, if an emergency comes up and you need your money, you will be hit with surrender penalties.

There are some rare occasions when a variable annuity might make sense, but generally, they are few and far between. Usually, variable annuities tend to favor the bank account of the advisor or broker selling them. That is why a true retirement Income Specialist will stay away from variable annuities.

Sources:

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