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Sterling Investment Advisors Ltd.
Timothy E. Flatley, ChFC®, President

"How many financial advisors should you have?"

By Timothy E. Flatley

People accumulate advisors as they pass through different stages of their lives. Frequently, the first advisor on the scene is the insurance agent. This individual focuses on establishing the foundation of financial planning: your insurance. Insurance agents are now trained to provide investment products, so perhaps the agent will initiate some savings plans as well.

As compensation grows beyond the level required to meet regular expenses, people engage an investment advisor to create an investment portfolio. Over time, they may develop their investing confidence and open an online investment account. One day, a friend at their club gives them some creative ideas on portfolio management, and they open yet another investment account.

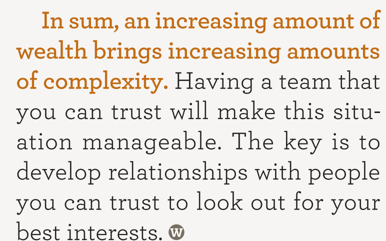
The situation has now developed to the point that multiple advisors are now making investment recommendations for one portfolio. This can cause a number of conflicts from an asset-allocation and tax-efficiency perspective. It can also provide advantages, as one of these advisors may have better investment skills versus another.

What is the best way to manage this situation? The solution starts with having an overall investment philosophy and asset allocation policy. "What are your income needs?" and "What is your risk tolerance?" are great positioning questions.

The next step is centralizing all your portfolio information into one system. There are a number of "aggregation systems," and even a software like Quicken can help you accomplish this. It will be important to know the investment fees that each professional charges. One argument against having multiple investment advisors is that you can achieve better pricing as you consolidate more assets with one investment firm. **With multiple advisors, you may have to implement a system to evaluate each investment advisor, as you will periodically need to determine who the better performers are and who should be terminated.**

As your wealth increases, the complexity and responsibility of managing it increases as well. Overseeing multiple investment professionals, maintaining the asset allocation discipline, managing the tax efficiency, grading the managers and rebalancing the portfolio can be a full-time job. You may consider hiring an independent third party to manage the advisors or appoint one of the existing investment advisors to do this.

We asked Steven Pressman, a CPA with Baker Tilly, who has advised high net worth individuals and families for over 25 years, for insight into this situation. His advice: "Clients tend to get lost in all of the paperwork, documents and reports that having multiple investment advisors creates. We have found that clients appreciate aggregating all of the information on a monthly or quarterly basis. With the one report, we can discuss with clients and their investment advisors their entire portfolio and attempt to achieve market efficiency as well as tax efficiency. [A one-report strategy] provides clients the platform needed to make informed decisions about their portfolio and the direction they are seeking. It also provides a level playing field for all of the advisors."



In sum, an increasing amount of wealth brings increasing amounts of complexity. Having a team that you can trust will make this situation manageable. The key is to develop relationships with people you can trust to look out for your best interests.

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