[Q&A]

Advice from OC Financial Advisers

More than 1,000 financial advisers work in Orange County, spread across more than 100 financial firms. Some trade stock for broker dealers. Some provide advice, along with insurance. Some are registered investment advisers, also known as RIAs, providing only investment advice. And others offer a combination of all services.

Trying to determine whether an adviser is worth his or her fee is difficult because it's often hidden among surcharges and not clearly spelled out. So we asked big and small advisers to shed some light on their industry. Besides the much-debated new fiduciary rule, we also asked them about the latest trends in Orange County and the biggest concerns of their clients.

What are advisers and clients doing differently because of the new tax law? What are the best ways for a customer to make sure he or she is receiving the best money management possible? How can you tell a good adviser from a bad one? Is there a red flag? And what costs should customers expect? Is it still 1% of assets under management?

Here are edited excerpts of their answers:

Morgan Christen

Chief Executive
Spinnaker Investment Group
Newport Beach

One of the biggest conversations we are having in Orange County is the value of real estate. Housing prices seem to continue moving higher, and in many areas, more than the last peak. For our younger clients, the question is affordability. They want to know if they should chase the dream of home ownership or stay on the sideline and rent.

There are some good and bad aspects to the new tax bill. We have found that many OC small-business owners have lost a good deal of tax deductions. Many of our small-business owner clients are exploring their tax deductible options, and a great choice is a retirement plan. With the proper planning, small-business owners can give a benefit to employees and save a large amount toward retirement in a tax-efficient manner. We anticipate this trend to continue as many clients feel their personal taxes increasing.

The biggest trend in Orange County is not only the aging baby boomer, but also the aging adviser. College grads are choosing not to enter the financial planning profession, and finding young talent is extremely difficult.

The Department of Labor's planned fiduciary rules really put this debate to the forefront. Brokers working under the Financial Industry Regulatory Authority use a suitability standard—which offers more service options to clients—meaning if the trade is suitable, then execute. There is no provision for it being in the client's best interest. If you are an SEC registered investment adviser, you are working under a fiduciary standard, meaning you will work in the client's best interest.

It is an odd debate. Shouldn't we all be doing the best for our clients? The law was poorly designed, as the fiduciary standard only applied to retirement accounts. So an adviser would not be a fiduciary on a nonretirement account, but switch to a fiduciary on the retirement account.

Annuities are the bread and butter of insurance companies, and these feed right into the crosshairs of the rule. In the end, even though the rule was not fully instituted, it effectively is in force. Clients are asking questions, and firms do not want to run afoul of potential litigation.

There are many resources for a customer to find an adviser, such as FINRA BrokerCheck or letsmakeaplan.org for a certified financial planner. You can look up a firm on the SEC's website. The internet has allowed clients to do extensive research on an adviser before they meet with them.

At Spinnaker Investment Group, a 1% fee is about average. However, a 1% management fee is just the surface; a customer needs to understand the all-in costs of the adviser and their company, as there can be onerous fees buried in a portfolio.

Our investment philosophy is as simple as ABC. Asset allocation, Behavior and Costs. We believe these are three areas that you can control, and if controlled, you should have a successful financial outcome.

Scott Gajda

Wealth Management Adviser
Northwestern Mutual
Irvine

The 2018 U.S. tax reform law has been a hot topic for Orange County clients in pursuit of purchases, sales and investments in real estate markets.

The tax changes will bring new personal income tax rates, new tax brackets and eliminations of some personal deductions and credits. The effect of the changes varies from taxpayer to taxpayer, so we will identify planning needs on a case-by-case basis. There may be clients who will require more involved planning to maintain or reach predetermined real estate goals.

No two people have the same financial situation—we're all unique. Before anyone invests in real estate in Orange County or a vacation home elsewhere, I recommend that person take a comprehensive look at short, medium and long-term goals, which will be affected by new rules on mortgages, taxes, insurance and other fees. That way, they have a more realistic vision of both tomorrow and today, and they can live life more confidently.

People in the market for a home may be less inclined to quickly jump into a purchase agreement if they feel like they'd have to sacrifice too many of today's goals for tomorrow.

Mark Hebner

President
Index Fund Advisors
Irvine

I think education is the big trend, both in Orange County and nationwide. At our Irvine headquarters, we're working on a new app so that all of the content on IFA.com—including calculators, charts, videos and articles—is condensed and easily accessible through mobile devices. It's a reason we're also expanding our video library, which now exceeds 400 videos covering

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What is an RIA?

The financial world is in an ongoing contentious debate—escalated by recently enacted regulations on fiduciaries—about the definition of a registered investment adviser versus an investment adviser who may also sell stocks and/or insurance. ***Laura Tarbox****, owner of* ***Tarbox Family Office*** *in Newport Beach, was an instructor and director of the personal financial planning certificate program at the* ***University of California-Irvine*** *from 1998 to 2008. She wrote the following edited description of an RIA:*

Any firm deemed to be providing investment advice, as opposed to acting as a broker of securities transactions, must be registered with the Securities and Exchange Commission as a registered investment adviser, or RIA. Firms that manage under $100 million are generally regulated by the state in which they do business, even though their listings and information will appear on the SEC website.

Firms are required to file an annual form, or ADV, with the SEC that provides important information about themselves, such as number of advisers, assets managed, number of institutional versus individual accounts, ownership structure of the firm, conflicts of interest and disciplinary history, if any. The list can be found at adviserinfo.sec.gov.

Tarbox: former UCI instructor, program director

A firm may also be a "hybrid" or "dually-registered" as both an RIA and a broker, and an adviser may be a registered representative of a broker. Such firms may give advice and also sell investment products. Their advisers are also listed with the Financial Industry Regulatory Authority under BrokerCheck at brokercheck.finra.org.

"Pure" RIA firms are not affiliated with any broker-dealer but typically enact trading through third-party custodians, such as Schwab, TD Ameritrade or Fidelity. These RIA firms are not licensed to sell investment products.

However, there is somewhat of a "loophole," in that RIA firms that are not licensed to sell securities may still sell insurance. Although such conflicts are disclosed in the back of SEC filing form ADV, the SEC does not regulate the sale of insurance products, which instead are regulated by individual state insurance commissioners.

It is important for consumers to know whether their investment advisers are licensed to sell them securities or insurance products. Although some may desire to purchase such products, others may prefer working with an investment adviser free of such conflicts of interest.

Advisers who do not sell any products at all may refer to themselves as "fee-only." Note that this is entirely different from "fee-based," which means that the firm can be a hybrid RIA/broker-dealer who charges fees and also sells products for a commission. ■