

# Understanding Independent Investment Management



You may be ready for more personalized assistance from an experienced professional who can work with you for the long term.

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Like many investors seeking financial independence, you want to protect and make the most of your money. Today's investing market offers more opportunities than ever to meet those goals regardless of your age, employment or amount you have to invest.

Yet with so many choices, where do you turn? Perhaps you've already sought occasional advice on some basics—for example, what stocks to buy and sell, or how to set up a retirement account. Now you may be ready for more personalized assistance from an experienced professional who can work with you for the long term. Many independent, fee-based investment advisors can do just that by providing ongoing management of your financial picture.

This guide has been designed to provide you with a general overview of how these professionals work, how they can help you and how to manage an ongoing relationship with an advisor.



# Advantages of working with an independent investment advisor

If a growing portfolio, time constraints or limited investing experience is leading you to seek professional guidance, consider engaging the services of an independent, fee-based investment advisor.

Need help rethinking your financial goals? Clarifying, organizing and consolidating multiple investments to create a unified “big picture”? Of the various investment management alternatives available, many can help, including independent, fee-based investment advisors. Determining your specific needs and objectives, understanding an advisor’s investment philosophy and asking an advisor what to expect from him or her will help you select the type of professional best suited to your goals.

## Advantages of independent, fee-based investment advisors

Independent, fee-based investment advisors can generally provide ongoing investment management, meaning they can develop and implement an asset allocation strategy that is typically tailor-made to accommodate your individual situation, investment objectives and risk tolerance. Some may also provide financial planning to help you save for retirement and college, provide for your heirs or prepare for major purchases, and may suggest strategies for minimizing taxes. Specifically, advisors can offer:

## Independence

Many advisors are independent and fee-based, meaning that they are not owned or operated by a broker/dealer, and their compensation is based on a percentage of assets they manage for you. They may have access to a broader range of products from various providers than those available to broker/dealer representatives working on a sales commission basis\* or limited to mostly proprietary products, enabling them to offer more options to meet your unique interests.

## Discretionary portfolio management

In providing ongoing investment management services, including asset allocation and securities selection, many advisors manage their clients’ accounts on a discretionary basis. If you choose to grant your advisor investment discretion, the advisor will be able to place trades in your account under a Limited Power of Attorney. That means the advisor will not have to ask you to approve each trade in advance. While you retain access and ultimate control over your account, authorizing discretionary management can save you time, simplify your investing and enable your advisor to quickly capitalize on potential market opportunities.

\*In some cases, however, personnel affiliated with these independent, fee-based advisors may be associated with a broker/dealer and may receive sales commissions for recommending certain products such as insurance policies or annuities.

### **A personal relationship**

Many advisors focus on developing long-term client relationships, ongoing communication, trust and rapport—a few of the essential components in creating continuity in service and planning that help them anticipate your needs.

### **Strategic planning and advice**

While advisors have different philosophies and investment strategies, many use a strategic, long-term approach rather than trying to “time the market” or invest in

short-term trends. Focusing on where you are today and where you want to go, they can help you navigate the larger economic and market environment to keep your financial goals on course.

### **Professional knowledge**

The specialized expertise many advisors have gained through years of education and experience in finance and investments can enable them to offer you sophisticated solutions to address your growing or complex portfolio.



## Is an investment advisor right for you?

Clients of independent investment advisors typically share similar financial needs and concerns and often must meet certain basic requirements. If you fall into any of the categories listed below, consulting an independent advisor may be right for you.

### What is your current situation?

- Your portfolio has reached a size where you are no longer comfortable managing it yourself.
- You are currently questioning the advice you are receiving.
- You need assistance with a specific goal such as rolling over a retirement account, planning for your heirs, diversifying stock options, etc.
- You have assets in multiple vehicles—401(k)s, IRAs, mutual funds, real estate, etc.—and you want someone to create a unified “big picture” by organizing and consolidating your investments.
- You want to make gifts to family members and need help administering your bequests.
- You want professional assistance to navigate unpredictable market conditions and the continual stream of new and complex investment opportunities.

### Do you meet these typical client requirements?

- Often at least \$250,000 in investable assets.
- A willingness to delegate investment management of your portfolio.
- Agreement to pay an independent, fee-based advisor a percentage of the assets managed for you.
- Interest in taking an integrated approach to your finances.
- Ability to follow a disciplined plan in both up and down markets.
- Openness in sharing personal information about your finances.



You and your advisor share a common goal: growing your wealth to meet your investment objectives.

# Professional designations and service descriptions

When searching for an advisor, determine which types of services are relevant to you and what combination of education and work experience enables you to feel comfortable.

Financial professionals can hold one or more of the following designations and often combine this educational background with years of experience in particular areas of expertise. These designations are listed below with a general summary of the education, work experience and ethics requirements needed for certification.\* To obtain more information on the requirements associated with these designations, contact the professional associations noted below.

## Certified Financial Planner (CFP)

**Education** – Completion of a financial planning education curriculum based on the CFP Board’s topic list at a U.S.-accredited college or university (or equivalent), with 30 hours of continuing education every two years.

**Work experience** – Three years of financial planning-related experience with a bachelor’s degree or five years without a degree.

**Ethics requirement** – Adherence to the CFP Board’s Code of Ethics and Professional Responsibility and Financial Planning Practice Standards, plus periodic disclosure of any investigations or legal proceedings.

**Services may include** – Review of your portfolio and other finances including investments and cash flow; tax, estate and retirement planning; insurance needs; creation of a plan analyzing your financial situation; and a recommendation on how to align your portfolio more closely with your stated goals.

**Additional information** – [www.cfp.net](http://www.cfp.net)

## Chartered Financial Analyst (CFA)

**Education** – Candidates must have a U.S. bachelor’s degree or comparable non-U.S. degree, then must sequentially pass the Level I, II and III examinations administered by the CFA Institute, formerly known as the Association for Investment Management and Research (AIMR).

**Work experience** – In lieu of a degree, qualified professional work experience totaling at least four years may be acceptable.

**Ethics requirement** – Compliance with the CFA Institute conditions, requirements, policies and procedures of a CFA charterholder and CFA Institute member, including the submission of an annual Professional Conduct Statement.



**Services may include** – Analysis of your current portfolio for its performance relative to your goals and financial plan; asset allocation; research, recommendations and selection of stocks, bonds and other investment vehicles; and portfolio management.

**Additional information** – [www.cfainstitute.org/cfaprogram/](http://www.cfainstitute.org/cfaprogram/)

### **Certified Public Accountant (CPA)**

The designation is awarded by the Board of Accountancy for the state in which the professional practices. The American Institute of Certified Public Accountants (AICPA) is the national, professional organization for all CPAs.

**Services may include** – Accounting, tax consultation and audits.

**Additional information** – [www.aicpa.org](http://www.aicpa.org)

### **Personal Financial Specialist (PFS)**

**Education** – The AICPA awards points for education and experience in the following planning areas: personal finances, personal income tax, risk management, investment, retirement and estate. Candidates must complete this requirement within the five-year period prior to application for the designation, which is then awarded once they pass the PFS examination. Several other certification examinations, as well as the NASD Series 65, 66 and 7 exams, are also eligible for points toward accreditation.

**Work experience** – The AICPA awards points for personal financial planning experience among the categories listed above within the five-year period prior to application for the designation.

**Ethics requirement** – Adherence to the AICPA's Code of Professional Conduct.

**Services may include** – Financial planning as well as estate and retirement planning, tax services, insurance guidance and portfolio management.

**Additional information** – [www.aicpa.org/pfs/](http://www.aicpa.org/pfs/)



# How investment advisors work

How do advisors approach their work? What will our meetings be like? How will I find out about the performance of my portfolio and whether I'm on track with my goals?

## **Selecting, meeting and working with your advisor**

### **Selecting the right advisor**

Advisors possess different professional philosophies; therefore, consistency with your objectives and risk tolerance is important. Understanding an advisor's philosophy and investment strategies up front can help you select the right relationship.

### **Discovering your needs**

Help your advisor understand your needs by communicating where you are financially, where you want to go and what special situations need to be considered. Your advisor may ask you about these topics during your initial meeting.

## **Preparing a financial plan**

Some advisors can provide a comprehensive plan (i.e., investment, retirement, college funding, personal income tax and estate/insurance planning) or a goal-specific plan covering one issue (e.g., retirement or home purchase). If you are interested in any type of financial planning, ask if your advisor provides this service.

## **Developing an investment strategy**

Based on your financial plan (if provided), investment objectives and risk tolerance, your advisor will prepare an investment strategy. Ask your advisor to describe this strategy and how it is intended to provide an appropriate balance of investment vehicles.

## **Ongoing portfolio management**

Your advisor should make investment decisions for your account based on your agreed-upon investment strategy, monitor your account, keep you apprised of salient news regarding your holdings, and buy and sell securities to keep your strategy on track.

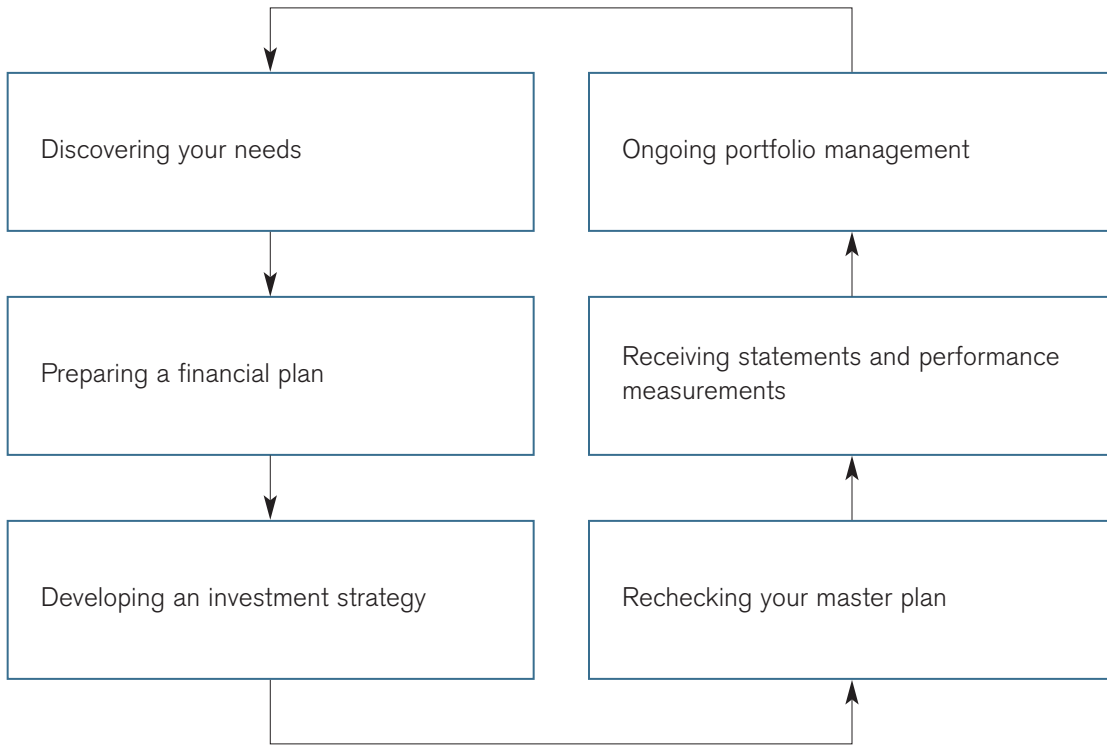
## **Receiving statements and performance measurements**

The broker/dealer where your assets are held must provide periodic statements of your accounts. Your advisor may provide periodic reviews and performance commentaries as well.

## **Rechecking your master plan**

Your advisor will typically meet with you annually for a formal portfolio review to verify that your investment strategy is on track with your goals. Decide together how often you want or need to meet (e.g., more frequent communication during the first year, tapering to fewer meetings as your relationship strengthens).

**Working with your advisor is an ongoing process**



**Who will trade on my account? Will I be able to access my assets?**

Your advisor may ask you to sign a Limited Power of Attorney (LPOA), a standard advisor-client contract authorizing the advisor to place trades on your behalf in your account. Granting LPOA will not change your access to your account.

**Where will my assets be held?**

Your assets will typically be held in your own account with a “custodian,” a financial institution or brokerage firm such as Schwab, not with the advisor.

# Interviewing an investment advisor

Clarifying your financial needs and preparing comprehensive interview questions can help you select an advisor.

## Step 1: Gather information

### Literature, brochures, Web addresses

Ask the advisor to summarize his or her philosophy, style, services, fees, etc.

### Form ADV

Ask about the advisor's formal education, professional background, services offered, areas of specialization, compensation and other business practices. Investment advisors registered with the Securities and Exchange Commission (SEC) or state regulatory authorities must provide this information in a two-part document called Form ADV.

For most advisors, Part 1 of this form is available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). It describes the advisor's background and business as well as any disciplinary history. Part 2 is a disclosure statement on the advisor's services, business practices, fees and any conflicts of interest. An advisor must provide the information contained in Part 2 either through the SEC's form or a brochure entailing comparable information, no later than the time the advisor enters into a contract with a new client.

## Step 2: Prepare for your interviews

Both you and the advisor need to determine how well you can work together. Therefore, you may want to bring more detailed information about your financial situation to your initial meeting, including:

### A bottom-line summary of your investable assets

Most advisors have an asset minimum, with many requiring a client to place at least \$250,000 under management with them.

### Specifics on your investing needs and preferences

- Risk tolerance – How aggressively or cautiously do you want to invest?
- Time horizon – How long do you plan to leave your assets invested?
- Income needs – Do you plan to draw income from your investments?
- Tax situation – Understanding your tax situation will help the advisor minimize the tax consequences of transactions when possible.
- Personal preferences – Are there types of investments you want to avoid, such as tobacco stocks?

### **Step 3: Some key questions to ask an advisor**

**What services do you offer?** Services may include financial planning, investment management and others.

**What size is your firm and how many clients do you have?** Practice size, which is indicated by number of employees, assets under management, average portfolio size and number of clients, may affect your relationship.

**What is your management style and philosophy?** How does the advisor choose investments? How often does the advisor adjust portfolios? Will the advisor prepare a written plan?

**How are you compensated?** Fee-based advisors may charge a percentage of assets managed (generally 1–2%) or an hourly or flat fee according to account size and services offered. Note: Fee-based advisors may receive commissions for recommending certain products, such as insurance policies or annuities.

**How will I be billed?** Typically asset-based fees are billed quarterly and financial planning services are billed by the hour.

**Who will I be working with?** Will it be the person you are interviewing or with another associate at the firm? Who will manage your portfolio? What contact will you have with that person?

**What is your expertise?** Advisors often specialize in investment strategies that can include specific investment vehicles such as mutual funds, stocks and bonds, etc., and styles such as Large Cap, Small Cap and International. Explain your preferences to determine the advisor's knowledge about your area of interest.

**What has your past performance been with clients who share my investment needs and risk tolerance?** While past performance does not guarantee future results, ask to see performance numbers on portfolios similar to yours in both up and down markets. Compare them with relevant benchmarks, such as the S&P 500,\* during the same period.

**Can you provide me with references?** An advisor should be able to give you the names and phone numbers of three current clients. You may also request contact information for professional references such as their banker, lawyer and CPA.

\*S&P 500: An unmanaged index of common stocks frequently used as a general measure of stock market performance. Investors cannot invest directly in an index.

# Reviewing and evaluating an investment advisor

As your financial needs and expectations change, reviewing and evaluating your portfolio performance and advisor relationship can help you continue to fine-tune your financial strategy.

## Your review and evaluation

While review of your performance reports is essential to your evaluation process, remember that they are snapshots of a market that naturally experiences highs and lows.

Since most independent advisors focus on building long-term relationships with their clients, you may also want to give weight to a more subjective consideration: the growth in your relationship and confidence with your advisor.

That said, at the onset of your relationship you and your advisor should also determine objective measurements of your agreed-upon investment strategy.

## Evaluation checklist

### Performance

- Evaluate within the context of your goals and objectives. Example: If you have a long-term investment strategy, you should allow a full market cycle (3-5 years) to assess your advisor's work.
- Evaluate through relevant benchmarks. Example: An advisor who can beat the relevant benchmark would be considered to be performing within expectations even though absolute returns for the quarter may be low or negative.
- Evaluate first-year performance separately from subsequent years.

### Reading between the lines

When reviewing your relationship with your advisor, focus not only on performance results but also on rapport.

Since many independent investment advisors place relationships and communication at the heart of their business, noting how you feel during your interaction together can be important. Ask yourself, "Do we speak the same language? Has my advisor fostered feelings of trust and respect? Are my goals being heard and addressed?"

### Relationship

- Is your advisor rechecking your master plan annually or as agreed upon?
- Keeping appointments and returning your calls?
- Answering your inquiries with thorough, understandable information?
- Listening and responding to your concerns?
- Continuing to inspire trust and confidence as you define it?

### Timing

- Did you have a first-year formal review? Are you meeting at any other intervals you agreed upon?
- Is your advisor verifying that you are receiving your broker/dealer's periodic statements and other regulatory information?
- If promised, are you receiving periodic reports from your advisor?

### Format

- Are your annual reviews being conducted in person?
- Are your meetings taking place in person or via telephone as agreed upon?



