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What is *Best* for You?
Investment Advisors vs. Stockbrokers

Besides looking for stock tips (which we do not have), "Are you a stockbroker?" is the question we get asked the most. We are not CNBC or Jim Cramer; nor are we stockbrokers. Summa Global is a Registered Investment Advisor (RIA). We understand where the confusion comes from, because our job has a lot to do with investments—stocks, bonds, etc.—and we do spend a vast amount of time researching and trading them. And yet, as an RIA, who we really are, and what we do, is an entirely different world than that of a stockbroker.

So what are the differences? Let's begin with the fundamental principles governing an RIA vs. a stockbroker.

The Fiduciary Difference

RIAs, whether state or SEC registered, are subject to the "fiduciary standards," which require us to act *solely* in your best interest. This serves three very important purposes: 1. It eliminates conflicts of interest because your interest always comes first; 2) it prevents us from self-dealing (remember Mr. Madoff, anyone?); and 3) it holds us accountable for our advice and actions to protect you.

Broker-dealers (BDs), including stockbrokers, on the other hand, are held to a different, slightly lower standard of diligence, known as the "suitability standard." BDs, when making recommendations or selling a product, only need to adopt the "suitability standard." The standard requires only that the advice given, or product being proposed, be deemed suitable to your stated objectives without regard to your best interest.

For example, when shopping for a life insurance policy recently, I was looking for two things: a high death benefit but a low premium. In that sense, a term life policy would make the most sense. One of the insurance agents I spoke with, while acknowledging my wishes, was very eager to present me a permanent policy with all the extra bells and whistles, because of the higher commission she would receive. Had the agent exercised the fiduciary care standard to which RIAs are held, she would have had to consider my financial situation (why I wanted a low premium) and disclose her potential conflict of interest upfront (i.e. how she was being paid for selling different products). The "suitability standard," however, only required her to present me with products that met my need for a high death benefit, allowing her to sell me the product with the higher commission.

The Compensation Difference

And this is really the heart of the difference—how we are compensated. Most bone fide independent RIAs are "fee-only" advisors, who either charge a flat fee or a percentage of assets under management. (By the way, our management fee is typically 1% per annum.) That is it. There are absolutely no kick-backs, fee-sharing deals, or commissions from anyone. Occasionally the brokerage firms we do business with will host educational events and seminars that we can attend free of charge, but there are no strings attached and we are under no obligation to do anything in return.

By contrast, broker revenue often comes from sales commissions and kick-backs, and they are paid based on their ability to sell products, sometimes at the cost of their clients. For instance, a family member of mine

opened up an IRA account at his bank and bought a mutual fund, which came with a 5% front load (sales charge) that he was unaware of.

The Human Difference

The reason we like to stay small and independent is the ability to be "human"—we care and we are passionate about what we do. We feel that it is our responsibility not only to help you achieve your financial goals and dreams, but also to support you in making any tough decisions that life throws your way. At Summa, we believe it is our personal and professional obligation to provide amazing customer service and as much education and planning as possible, so that you can benefit, grow, and feel secure about your financial situation. We enjoy listening and learning from you, not just as a necessary part understanding you and your finances, but also to make this a vibrant relationship in which we grow together.

Why You Should Care

Due Diligence Let's revisit my life insurance shopping experience. Being in the financial industry, I knew exactly what I wanted and the purpose of different products. For the average consumer, however, it could be a daunting task to try to choose the product that is best. Most people, not surprisingly, are likely to take the first product being sold to them because it "sounds" good. We can help by offering a second look, doing the due diligence, and perhaps bringing you a few extra options. This review applies to many financial products available in the marketplace, not just on insurance products. When all is said and done, we want to make sure your decision is an educated one and that you purchase what is best for your situation.

You as a Fiduciary If you are personally in the role of a fiduciary—trustee, conservator, guardian, and the like—you have accepted a role with a great deal of significance and many legal implications. If you are not confident in the role and opt for relying on professional assistance to help you perform your duties, you should make sure the "team" you assemble is also exercising the utmost fiduciary responsibility—especially when it comes to investing any assets involved. A fiduciary needs to perform the following tasks:

- Selecting an investment strategy that takes into consideration the trust's provisions and its beneficiaries.
- Having an investment policy statement in writing.
- Communicating effectively with the beneficiaries and other service providers.
- Filing tax returns and meeting other filing requirements.

The challenge can be overwhelming, but assembling the right team will remove a tremendous amount of work and stress from you. Our advice: be sure to get to know the team and that they know what you expect out of them too.

Advisors Wearing Two Hats Some RIAs are also "dually" registered as BDs, or affiliated with one. This does not necessarily incur conflicts of interest as RIAs are required to disclose them before entering a transaction. However, you should be wary that these advisors are wearing two hats and you need to see clearly which hat is being worn when doing business with them.

To learn more about us, visit our website (www.summaglobal.com) or call us for a copy of our ADV Part II brochure.

Happy Spring!

- *Henry Yu, CFP®*