
From Investment Advisor to Fiduciary Advisor

By John Appleby—Guest Columnist

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The retirement plan industry is at an inflection point in its evolution. Driven in part by the swelling demands of the estimated 100 million Baby Boomers, Congress is issuing new regulations and placing more demands on plan sponsors.

Each new twist and turn in the legislation is causing a domino effect as service providers seek to adjust to the new realities and position themselves accordingly to gain the ear of fiduciaries. One of the more interesting arenas to observe has been among the investment advisors who work with plan sponsors.

The job of advice-giving has evolved significantly in recent years from the simple task of selecting and monitoring a plan's investment options to consulting on a broader array of retirement plan related topics. Some investment advisors can muddle their way through by leveraging relationships and digging answers out of the dirt. Yet, while many may talk a good game, few can deliver these myriad of services when pressed by increasingly anxious plan sponsors.

Fearing lawsuits, plan sponsors are beginning to recognize this gulf in sophistication and are actively seeking out knowledgeable partners. The gap is startling. Of the roughly 300,000 advisors in country, approximately 15,000 consult to at least one retirement plan and only about 1300 have a significant presence in the market. In other words, just 0.4 percent of advisors work with retirement plan clients in any meaningful way. Thus, very few advisors can deliver the breadth of services required to truly serve as a retirement plan advisor.

Bridging this gap is beyond the reach of most investment advisors. The market is demanding a suite of services delivered by a specialist team of experienced professionals with deep expertise in the complexities of retirement plans. In contrast, most advisors are generalists serving mainly wealthy clients and lack suitable resources.

It will be difficult, if not impossible, for these advisors to graduate beyond simple investment analysis work, and they will likely face a revolving door of clients: an estimated 58 percent of plan sponsors are changing advisors due to a lack of services or lack of knowledge. The tide is turning, leaving these unsophisticated advisors high and dry.

To become an invaluable and trusted fiduciary advisor requires specialist knowledge combined with a specialist firm. This does not come easy and often takes many years of re-investment to build the necessary scale. As a result, the investment advisory business is extremely fragmented and lacks obvious market leaders. Yet for plan sponsors who take the time to assess the landscape, there are clear differentiating factors that make some firms stand out from an increasingly crowded field.

First, will the investment advisor sign on contractually as a co-fiduciary? While the law is clear, many advisors still try to blur the lines and duck the responsibilities that come with the territory.

Second, does the investment advisor disclose their compensation on a quarterly basis, including any off-setting revenue received from 12b-1 fees? As plan sponsors will soon need to report the fees associated with running the retirement plan, this world will ultimately gain clarity, though it continues to remain murky at present.

Third, is the investment advisor truly independent and objective? This is easy to say, but few can say it in practice; as a result, it is often the hardest area for plan sponsors to distinguish between competing advisors.

Lastly, the best firms will be focused on client service and have a documented fiduciary process to protect plan sponsors. The very best will provide access to an on-line system to view all of your key retirement plan documentation in the case of an audit or lawsuit.

The top firms are fiduciary advisors. They anticipated the shift in the market and are advanced in their ability to centralize expertise and resources to leverage services to clients.

Plan sponsors should seek out these truly integrated businesses, but guard against retaining a firm which is part of a loose collection of disparate offices operating under an umbrella organization. Not all firms are created equal.

Only by finding a firm with all the necessary service offerings and expertise under one roof can plan sponsors receive the level of sophistication necessary to find a true co-fiduciary partner.

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