Taxes & Investments Series

Advisor Diversification

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for over 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge with you. We've created the Taxes & Investments Series to share timely information and provide our Advisors and their clients with practical educational information.

Time and again, investors have heard that diversification is good for an investment portfolio. While diversification across asset classes can be beneficial to an investor's overall portfolio, it doesn't necessarily make sense to diversify across multiple firms and advisors. For example, if you were feeling unwell, would you only mention half of your symptoms to the doctor and expect an accurate diagnosis? Just like when an advisor does not know the whole financial story, it limits the effectiveness of his or her plan. In short, working with many different advisors can have a negative effect on an overall portfolio.

Advisors want what is best for their client, but every advisor has his or her own way to manage assets in order to pursue the client's goals. Many times these styles do not work together and can have a negative impact on an investors' portfolio. If no individual advisor is looking at the overall picture, the investor is left responsible for several elements of their total portfolio:

1. **Determine a Financial Plan***
   Without a single trusted advisor to create a complete financial plan, the investor is responsible for thoroughly reviewing every aspect of his or her financial life and creating a detailed overall financial plan. This plan should be updated on a frequent basis for any change in goals or family dynamics.

2. **Determine Asset Allocation**
   When assets are distributed out across advisors, investors must determine their own asset allocation. In our experience, most people tend to overweight their allocation based on emotions like fear and greed. The risk is that while parts of a portfolio are properly allocated, the overall portfolio may not be, and this could potentially lead to lower returns.

3. **Rebalance the Asset Allocation**
   Investor portfolios should be rebalanced when the market drives portfolios out of balance or when investors' situations, future objectives, feelings, or family dynamics change. Without one advisor in place to do this, the investor must reach out to multiple advisors to piece together a total overall view of all of their assets and direct trades to keep the asset allocation in balance. This could even mean requesting distributions from one advisor to transfer money into an account held by another advisor.

4. **Manage the Correlation of the Investments, Funds and Managers**
   Without a single advisor in place, it falls on the investor to manage the correlation of their overall portfolio. It is important that the investments selected are not too similar or overlap, because this could result in an unintentionally concentrated position or strategy. The various investments should offer checks and balances and reflect the investor's changing situations, goals and family dynamics.

5. **Manage the Tax and Fee Consequences**
   Without one advisor to look at the entire pool of assets and the actions being taken, it falls to the investor to understand if the actions of the advisors will cause unintended tax consequences for the entire portfolio. Likewise, it would fall on the investor to determine whether the actions of the advisors will cause additional fees or whether accounts could be consolidated across advisors to reduce fees, such as by reaching breakpoints.

One of the keys to a successful investment portfolio is to partner with a trusted financial advisor. When an investor works with multiple advisors it can lead to their assets working against them instead of for them. A qualified Advisor can help with all elements of a portfolio to work towards successful retirement plans and financial goals.

If you are not currently an HD Vest Advisor but are interested in learning more about partnering with us to offer financial services, contact a Business Development Consultant at (800) 742-7950.

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