INSIGHTS

Are You an Adviser or an Advisor?

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Do your clients believe that you’re serving as an adviser or an advisor? This is not a trick question. If you’ve never considered the answer nor clearly communicated your role with clients, there’s a possibility that may be confused as to the type of fiduciary role you’re providing.

The difference between adviser and advisor was the subject of extensive debate more than 25 years ago. At that time a number financial writers and editors decided on the following nomenclature:

Asset managers and money managers who were making investment decisions would be referred to as advisers (“er” version). The advisers’ role is to make investment decisions subject to a defined investment strategy. They select the securities, investment structure (mutual funds vs. separately-managed account), trading platform, and custodian.

Investment consultants, wealth advisors, plan advisors and financial planners who are managing an investment decision-making process would be referred to as advisors (“or” version). Advisors are responsible for helping a client to articulate the client’s goals and objectives; suggest an optimized asset mix; develop the appropriate portfolio strategy; oversee the implementation of the strategy; and monitor the strategy on an ongoing basis.

So are you making or managing investment decisions?

If you’re serving as an adviser, you have a duty to prudently make investment decisions in accordance with the defined investment strategy. There is an explicit understanding that the strategy is going to reflect your investment style, strategy, biases, preferences, and philosophy.

On the other hand, if you’re serving as an advisor, your role is to help a client with the management of their investment decisions. As an advisor, there’s an implicit understanding that you’re going to be objective and to keep in check your investment biases, preferences, and philosophy.

It's the role of the advisor that has become muddled and the reason why advisors should carefully reflect on their own biases, preferences and philosophy when advising clients.

The advisor is responsible for leading the client through a collaborative discovery process to properly identify the client's goals and objectives. In turn, the advisor has a responsibility to ensure that the proposed investment strategy is aligned with the client's goals and objectives.

A possible fiduciary risk is when the advisor leaps over a collaborative goal-setting discussion and implements an investment strategy that is not aligned with the client's goals and objectives. Or worse yet, not disclosing the advisor's (biases, preferences and philosophy) methodology in carrying out the process.

We've begun to collect fiduciary big data that suggests that elite financial professionals are struggling with collaboration and alignment. Professionals serving in the role of an advisor need to be aware of these two potential blind spots, and how they might be impacting the quality of the professional's decision-making process.

We acknowledge that the majority of clients are going to welcome, even ask for your opinions. After all, you're the expert. And when asked, there's nothing wrong with sharing your investment biases, preferences and philosophy; as long as they are noted as such.

When you're holding yourself out as an advisor, you have a fiduciary responsibility to ensure that the client is capable of making their own informed investment decisions. If they're not capable – if they lack the time, inclination and knowledge to manage their investment decisions – the more prudent course is for you to assume the role of an adviser. In turn, if you're only willing to take responsibility for an investment process that reflects your biases, preferences and philosophy, then don't make the mistake of holding yourself out as an advisor.