KARPUS
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COMMENTARY

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Two often overlooked questions when choosing an advisor

When searching for an advisor, many investors look at the firm, their performance, and their strategy. While these are clearly important questions, two essential questions that often get overlooked are: (1) whether they are investing with a fiduciary, and (2) who is actually holding their assets?

Looking at the first, the benefits of working with a fiduciary include:

1. Trust and transparency: By law, a fiduciary is required to act in the best interests of their clients. This means that a fiduciary must seek to provide unbiased advice that is tailored to clients' specific circumstances.
2. Accountability: Fiduciaries are held to a higher standard of accountability than non-fiduciaries. They must be able to demonstrate that they have acted in clients' best interests and that they have made investment decisions based on their needs and goals.
3. Professional expertise: Although there is no guarantee to a fiduciary's skill level, fiduciaries are typically highly qualified and experienced financial professionals who have a deep understanding of financial markets and investment strategies.
4. Reduced conflicts of interest: Fiduciaries are required to disclose any potential conflicts of interest and take steps to mitigate them. This done to help illustrate that an advisor is acting in their clients' best interests, rather than their own. To learn more about this, investors can take a look at an advisor's Form CRS, or client relationship summary. This is a plain language document that details an advisor's relationships, services, fees/costs, conflicts of interest, standard of conduct, and disciplinary history (if any).

As an investor, it important to understand your options between all different types of advisors (e.g., robo-advisors, brokers, insurance agents, financial advisors, planners, etc.) and choose the one that best meets your needs and aligns with your financial goals.

Once the decision is made with whom to invest, another question that tends to not get much attention is who actually holds your assets when you work with any of the aforementioned options. These institutions are referred to as your "custodian."

An investor's custodian is a crucial part of their investment strategy because they are responsible for safeguarding your assets. They act as a neutral third party that holds your investments, settles trades, collects dividends and interest, and provides investors with account statements and tax reporting.

Many custodians have robust systems and processes in place to ensure that your assets are protected, and they are constantly monitoring and updating their security measures to stay ahead of potential threats. Therefore, the strength and reliability of your custodian is essential to the security of your assets.

In addition to the above, choosing the right advisor and custodian can help provide you with access to the types of investment options you need to achieve your financial goals. Some advisors and custodians can have restrictions on certain types of assets, so asking whether any of these restrictions exist can potentially impact the level of investment options available to you.

Overall, choosing a strong and reliable advisor and custodian are crucial to the security and growth of your assets. Before making any final decisions, ask questions and understand the duties of your advisor and who your custodian will be.

For other Karpus insights, please see our website.

Sources: Forbes, U.S. Department of Labor

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