

BENEFITS OF WORKING WITH AN INDEPENDENT FINANCIAL ADVISORY FIRM

Recently, a prospective client asked me: “What does that mean when you say that Sigma is independent? Why is it important to me? What benefits do I get from Sigma being independent?” A light bulb went on in my head: useful questions! As a professional advisor, I take it for granted that everyone knows what being “independent” means in our industry.

Sigma is indeed an independent Registered Investment Advisor (RIA), meaning we are regulated by the US Securities and Exchange Commission and that we are not owned by nor affiliated with any other financial services company such as Vanguard, Blackrock, Focus Financial, Hightower, etc. We operate under the fiduciary standard, the highest that some financial firms must abide by – an obligation to put the needs of clients above the firm or its professionals and to act in clients best interest at all times.

Why is being independent so important?

1. Being independent allows us to have a transparent fee structure.

Financial professionals earn money for their services

in one of two ways: fee-based or fee-only. The two compensation methods are not interchangeable.

Fee-based advisors are typically associated with banks or securities brokerage firms and get paid commissions from selling financial products such as mutual fund shares, annuities, life insurance policies, etc. Receiving commissions may present a conflict of interest. The risk is that the broker pitches a product or security due partially on the size of the commission he/she will earn and not entirely based on whether the recommendation is the best fit for the client.

Fee-only advisors, including Sigma, generate revenue purely from payments provided directly by clients. The fee is typically based on a percentage of the assets under management. This fee structure suggests that the advisor’s interests are aligned with the client’s. The advisor wants the client to succeed because the fee the client pays will terminate if the client at any time feels his or her interests are not being met. Working with a fee-only advisor eliminates most conflicts of interest and ensures that the financial advice the client receives is in his or her best interest.

local independent personal accessible

interactive creative local independent personal

knowledgeable thoughtful ethical experienced

2. Being independent protects client assets.

Being independent also means that Sigma is not under the control of any brokerage firm and does not have custody of clients' assets. Sigma, for example, uses Charles Schwab and Fidelity as third-party custodians to hold and safeguard clients' assets. Client accounts are at the custodians, and we are able to place trades and offer service on the accounts, but it is the custodian that reports transactions to clients, verifies signatures, generates monthly statements, sends tax forms, etc. The segregation between the advisor and the custodian protects clients because the assets are not held by the same person who advises on how to invest them. Be cautious of any advisor or firm that has custody of your assets and oversees them. That is how Bernie Madoff was able to pull off his scheme.

3. Being independent gives us the freedom to offer customized strategies

A truly independent RIA is not obligated or encouraged to use any firm's proprietary products. Advisors don't push products to simply meet a quota or maximize commissions. Rather, the RIA is expected to take a holistic approach and take your "whole picture" into consideration. By taking the time to understand one's unique needs and goals, the advisor can map out a comprehensive strategy to achieve a desired end game. Interestingly, this strategy might include the purchase of insurance, annuities, and other

products. If so, we would invite a broker to step in to sell that product, we are not licensed to do that nor do we receive any financial reward in doing so.

When researching an RIA, consider asking for their Form ADV. You can also obtain this form from the following website. <https://adviserinfo.sec.gov/>

Examine how long they have been in business, what their assets under management are, whether the advisors are credentialed as a Charter Financial Analyst (CFA) or Certified Financial Planner (CFP®). What list of securities are approved for use. You can also go to the firm's website and get a feel for how they operate, the depth of their staff, as well as a host of other information. A poorly designed website and minimal content should prove to be a red flag.

As we approach 2023, and in concert with my colleagues at Sigma, we wish you a wonderful holiday season and a prosperous New Year.

Wenma Gorman, CFA CFP®

Did you know in addition to our monthly Sigma Summaries, we have an excellent blog written by members of our own Investment Committee? The blog topics include investments, economic outlook, financial planning, and includes our new weekly report "Sigma Signals". Click here to start receiving the blog or visit <https://sigmainvestments.com/blog/> to see prior posts.

Disclosure: The information presented in this newsletter is the opinion of Sigma Investment Counselors and does not reflect the view of any other person or entity. The information provided is believed to be from reliable sources but no liability is accepted for any inaccuracies. This is for information purposes and should not be construed as an investment recommendation.

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives