MO•Ē•NĬO

~TO FORTIFY, PROTECT

Top Financial Advisor Rankings:

Can You Really Use Them For an Advisor?

Imagine you, or a loved one, must undergo a complicated, high-risk heart surgery.

An important decision must be made:

How to choose the right surgeon?

You already have your surgeon who was recommended. But, being diligent, you conduct an Internet search for "top heart surgeons" in your area. You want confirmation that your surgeon is one of the best. Although the search results will not make the decision for you, they are a confirmation of which are top rated.

Does this approach lead to a choice that is truly in your best interest?

Consider this:

When choosing a heart surgeon, what matters most? Experience and results are the most important criteria, but there may be others. Do you know how the rankings measured experience and results? Did they consider other factors that might be important to you, or some that might not?

Some top surgeons (perhaps the best) may have been excluded because:

- They chose not to be included (they might believe the rankings are inaccurate)
- The rankings were based on information that was not available for those surgeons
- A fee or some other business relationship might have been required to be included

Without more information about how the rankings were constructed, you might commit a significant error in your decision.

What does this have to do with an analysis of Financial Advisor Rankings?

When faced with making an important choice, especially one involving someone who will be responsible for your financial well-being, many of us turn to some type of independent ratings or rankings for confirmation as a starting point. Based on a set of factors, the rankings narrow the choice down to a list of "the best" among a wide array of alternatives.

This makes the process much faster and easier than if we had to research the various options on our own. But do those rankings incorporate the factors that matter most to you, and do they include or exclude things that are relevant to your needs?

In this paper, we will examine this question in the context of choosing a Financial Advisor using well-known "Top Advisor" rankings, and show you how those rankings can help or hinder your search. Our analysis will include:

(Analysis on the next page)

Top 100 Financial Advisor Rankings
(Barron's)

Top 400 Independent Advisor Rankings
(The Financial Times)

Top 1,200 Financial Advisor Rankings
(Forbes)

We'll review three important areas to consider if/when you use these rankings:

1. Which criteria matter most in the rankings?
2. What elements offer incomplete information that can lead those using the rankings down a wrong path?
3. What is missing from the rankings, and what you can do when factors that are important to you are not represented?

A few comments before we begin:

First, what gives us the authority to provide these insights regarding financial advisors, registered investment advisors and the wealth management industry? How do you know the advice we offer is well-informed and conflict-free?

Our firm, Moenio, is a client-advocacy firm. We have one goal – to help our clients evaluate and find the best advisors in the country to manage their assets. We have met with, examined, and interviewed thousands of financial advisors across the U.S.. Using a proprietary ranking system, we evaluate advisors in over 16 areas of their practices with an emphasis on the key "what matters most" areas.

Secondly, we believe the rankings provided by Barron's, The Financial Times, and others attempt to tackle a herculean task. Although we believe some of the approaches taken are insufficient, we understand they were designed to meet the needs of a wide, diverse audience. There are valuable data points within these rankings that can point investors toward choosing an advisor, but they also contain potential hurdles or traps and end-users should be aware of them.

In this article, we will examine whether or not high net worth individuals selecting a financial advisor should rely on published rankings to simplify their search: as we do a deep dive into the subject, informed by the process Moenio uses to evaluate and select advisors for our clients.

As with the heart surgeon example, before you rely on the Top Advisors rankings, you need to know, and think critically about, how they are created.

In one ranking, 28 of the Top 30 financial advisors are from large metropolitan areas.

Why?

Does living in one of those areas confer "best?"

One ranking asks advisors to rate the importance of 26 different types of investments and services to their business, from Mutual Funds and ETFs to private equity and hedge funds, to retirement planning and "executive financial services", on a subjective scale of 1-10.

How can this reveal which advisors are better than others?

Some highly respected firms have *no* advisors in the rankings.

Does this really mean those firms have no good advisors, or did they refuse to take part in the rankings for some reason?

We reviewed the criteria used by the publishers of the most widely recognized advisor rankings and identified the areas we believe are useful, and those that can be misleading. We also discussed factors the rankings failed to consider but that we believe should be included.

First, we note that the most widely recognized rankings of financial advisors reach different conclusions about which advisors deserve to be on their lists (just as JD Powers and Consumer Reports don't agree on which are the "best" cars, even though cars can be evaluated based on factors that are far more objective than the criteria used to create financial advisors rankings).

Why the disparity in the results? Because the publishers that create the rankings each use their own criteria and assign their own weightings to the factors used in their process. In other words, the whole process is highly subjective.

We reviewed the methodologies used by Barron's, Forbes and The Financial Times to rank U.S. financial advisors. While the old saying "garbage in, garbage out" is as true for rankings of financial advisors as for anything else, our goal was not to dismiss the rankings as useless, nor did we set out to choose whose ranking method was best. Our purpose was to point out what's good, what's not so good, and what is left out of these rankings. We also explain Moenio's views on these criteria when choosing a financial advisor.

Useful, with caveats

We start by highlighting some of the factors in the popular rankings we believe are quite useful, as long as you recognize their biases and limitations.

1. ***Years of Service*** – This is an important one. You don't want an inexperienced advisor guiding your financial life. The number of years an advisor has been in the wealth management industry matters, and we think some rankings are too lenient about this.

   For example, Forbes requires advisors to have a minimum of seven years' experience to be considered for their Top Advisors list. We believe seven years isn't long enough. Why? Because the current bull market is now 10 years old. Therefore, a financial advisor with less than 10 years of experience has not been through a bear market.

   Based on our work evaluating and finding top advisors for our high net worth and ultra-high net worth clients, we believe an advisor should have a minimum of 15 years' experience. This ensures the advisor worked through the 2008 Financial Crisis and the after-effects of the dot-com bust in the early 2000's. Both of these events provided invaluable training for advisors who were investing assets for clients during those times. While most did not see these bears coming before they arrived, advisors who were in the trenches during those times at least had an opportunity to learn from them. For those whose financial advisors were in the markets in 2000-2002 and/or 2008, we shared our views in~~,~~ *Planning for the End of a Bull Market*, which discusses how top Financial Advisors can subtly shift their allocations before a downturn. This is an area we consider important when evaluating advisors.

In addition to requiring 15 years of experience from the most senior advisor, we also want to understand the responsibilities of the more junior members of the team. If the senior advisor is primarily involved in winning new business, are the less experienced team members handling too many of the day-to-day activities of managing your money? If so, how much experience do *they* have?

2. ***Number of years at the current firm*** – Why does this matter? Successful advisors are paid handsomely to switch firms, often 150% to 200% of their current year's revenue. This means top-ranked advisors could be paid $2-$5 million (or more) to "jump ship". When they do, they agree to stay at their new firm for seven to ten years, on average. None of this is inherently bad or wrong; however, when their financial advisor moves to a new firm, clients are pressured into moving their assets. We don't want our clients to face this situation on a regular basis.

In our view, one move in a 15-year career, perhaps two moves in 25 years, is acceptable. We look to see if the advisor has a pattern of moving from one firm to another after their commitment period has ended. We want to avoid putting our clients in a situation where every seven years or so, their advisor will try to convince them a different firm is now the best place for them to be. That's not in our clients' best interest. One top advisor rating requires an advisor to have been at the firm for a year; the other two say they have a requirement but do not specify what it is. We believe reviewing each advisor's employment history in the industry to understand their intentions and background of employment is imperative.

> In one search we undertook for a client, we asked a major US bank to provide their "best" to interview for a $40 million relationship. The bank provided someone with less than 10 years of experience. During the interview the banker was articulate, educated and thoughtful. But, when we started to ask about his experiences in the markets, he gave textbook answers rather than relating first-hand experiences. This is not what our clients expect, or what we require. when they tell us, "I want a great financial advisor or banker."

3. ***A clean/acceptable regulatory record*** – Complaints against an advisor, shown on BrokerCheck, through FINRA, are a warning flag. However, some complaints can be unjustified but are shown as a complaint without action being taken by their firm or FINRA/SEC. Understanding the variances is important.. On the other hand, some items on a compliance record raise legitimate concerns, such as a settlement payment made by the advisor. It is important to recognize that the Top Advisor ranking surveys *do ask* about FINRA compliance issues.

However, there is one area of concern. When we conducted our own independent verification of a Top Advisor listing, we found 4 out of the Top 10 advisors having disclosable events. This represents 40% of the Top 10 Financial Advisors and, in addition, 3 had more than one settlement (where money is paid by the advisor or firm to the client filing the complaint). These three advisors would automatically be disqualified from a search we might undertake for a client.

As important: Complaints and disciplinary items reported to FINRA are immediately shared on BrokerCheck and are available to any investor who wants to review an advisor's record. However, criminal or civil actions are another matter. When an advisor joins a new firm, he/she is required to undergo a background check. At that time, any prior incidents~~,~~-- criminal or civil -- are disclosed. *However,* if an incident occurs sometime after the advisor has been hired, unless the advisor "self-reports" the criminal or civil incident to the firm it will not be revealed unless the firm re-runs a background check. At this time, 95% of firms registered with the SEC or FINRA do not run updated background checks on their advisors. At Moenio, in addition to reviewing any BrokerCheck issues, we run a nationwide background check on every advisor we consider recommending.

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We were meeting with a potential client who had questions about the value of our services. We shared some insights into what we could provide, and ran a simplified background check on his current advisor during the meeting. We found five reported disclosures on BrokerCheck; the client knew about three of them. This was not the end of the story, however; something did not feel right. After the meeting, on our own, we ran a civil background check on the advisor. We found four civil lawsuits against the advisor involving intra-family issues and credit card charge-offs.

Incomplete or Misleading

Now we turn to the criteria used in creating advisor rankings that sound reasonable on the surface but that lead an investor astray.

1. ***Assets Under Management (AUM) and AUM Growth* –** This is given a lot of weight in the rankings. Too much, in our opinion. As with so many things in life, bigger isn't necessarily better. If AUM is large, that may well indicate an advisor delivers strong results and client satisfaction is high. But those things do not always go hand-in-hand. **In one of the rankings, AUM and AUM Growth are given a combined weight of 87% to determine an advisor's overall score.** So, an advisor has to be big and getting bigger every year to have a chance of making it into this ranking.

   This mentality has created a positive feedback loop between AUM and advisor rankings that is not necessarily positive for investors. When an advisor generates sufficiently high revenues and AUM to qualify for one or more Top Advisor rankings, this attracts more clients, which increases the advisor's revenues~~,~~ as well as AUM and AUM growth, which then further cements his/her position in the top rankings, bringing in more business, and so on. But this increase in AUM is not performance-related or "verified service related" – it is driven by the advisor's presence in the rankings. Meanwhile, many highly competent advisors ~~are~~ pushed out of the rankings.

   > *In doing a search for a client, we met with one of the top advisory teams in the U.S., according to the rankings. The team had high revenues and a hefty amount of AUM, but during our interview we realized they were a great marketing machine rather than great wealth managers. They had all the "right" answers, but when we started to go two to three layers deep on questions such as "what benchmarks do you use to judge your performance" and "how are you prepared for a potential -15% to -20% correction," the value of the team started to unravel.*

   Moenio cares about revenue and AUM as an indication of client satisfaction and good performance, but we want the focus to be how advisors actually invest for their clients, how they think about the markets and what services they deliver. An advisor with a small but stable client base might be a better fit if you want more personal attention from the senior financial advisor or registered investment advisor. Just because someone is good at bringing in new clients does not mean that he/she is good at other aspects of the business, such as service, investing, communicating with clients, etc.

A client hired us to evaluate her current advisor. We found the advisor had checked all the boxes we think are important: clean background check, performance, benchmarks, fees, and communication. However, we discovered that our client, in terms of asset size, would be in the lower 20% of the Advisor's Book of Business. Our clients need to be in the top 50% of an advisor's client base. Why? Because human nature dictates, the more important you are to an advisor's business, the more attention you receive. Conversely, we do not think it is prudent for our clients to be the very largest in an advisor's practice. We want our clients to represent the norm for how an advisor runs his/her business.

2. ***Fees*** – One of the Top Advisor rankings includes the topic of "fees" among their criteria, looking at the percentage of the advisor's business that is fee-based.

   We think this places too much emphasis on the idea that a fee-based business model is the solution to the concern about whether an advisor is acting in the client's best interest, although we do agree it is the right solution for most clients.

   Why? It creates a win-win for the client and for the financial advisor. The higher the return provided by the financial advisor, the higher the fee paid by the client. If the account has $1,000,000 and grows by 10%, the account grows to $1,100,00 and the advisor is rewarded with a higher fee. Conversely, if the account declines in value the financial advisor gets paid less.

   We disagree with the across-the-board push into a fee-based account for a simple reason. Some of the best financial advisors we have found construct portfolios by buying stocks and bonds using a hybrid model of fees and commissions, where the commissions can be lower than the fees would have been.

   Ranking financial advisors based on the percentage of their business that is fee-based is overly simplistic and can lead to flawed conclusions. There is only one factor for us when we evaluate a financial advisor on compensation: *What are the client's risk-adjusted returns over a three-year and five-year period relative to the fees that were paid to the financial advisor?* **We believe this Fee Ratio is the best way to judge whether an advisor's fees are appropriate.** It is indifferent as to whether the fee is based on AUM, a commission, a "retainer" or some combination thereof.

The Fee Ratio approach also inherently reflects differences in returns across asset classes, regardless of how the advisor's compensation is determined.

3. ***Objectivity*** – Much of the information about advisors in these rankings is self-reported and not independently verified. For example, one ranking's criteria states "Advisors must be recommended and nominated by their Firm". Firms benefit from having advisors in the Top Advisor rankings, therefore they will, and should, nominate those fitting the methodology requirement. Firms are not required to be objective but to promote their financial advisors in the rankings.

   Additionally, when the entity creating the rankings gathers information through interviews, the interviewers may not have sufficient knowledge of the wealth management and investment management industries to (let's put this politely…) see through any smokescreen that might cloud the facts, so the information gathered through the phone interview may not accurately reflect the advisor's competence. Just as troubling, online surveys are completed by the advisors themselves, or by a marketing team that knows how to "handle" the surveys.

> *Some of the top advisory teams in the country, as ranked by AUM and Revenue, are also the top salespeople in the country. One attribute we have noticed in meeting with hundreds of advisors is their ability to market themselves. They are at the top of their game and if those interviewing them do not have the ability to separate the sales pitch from the facts, this creates an information imbalance that is not in your favor.*

4. ***The Mumbo-jumbo*** – Some rankings include things like "quality of practice" and "philanthropic work" among their criteria. The first is too vague to understand, and the second, while definitely admirable, does not have much bearing on how well the advisor is going to handle your money and serve you as a client, unless of course your goal is philanthropic in nature. Including these attributes makes the rankings less transparent than they should be.

What's Missing?

Finally, we discuss a few items we believe should be included in the Top Advisors ranking criteria, but are (unfortunately, for investors) missing:

1. ***Performance, Risk and Investment Decisions*** – Rankings exclude all investment related items: Performance, risks, portfolio construction, and more. Why? The answer goes to the heart of understanding how to utilize those rankings for your benefit. To be fair, it is difficult for the Top Advisor rankings to draw conclusions about an advisor's performance without including each clients' investment goals. For example, one advisor might have a large percentage of clients with a fairly low tolerance for risk, while another might have clients who are more aggressive in pursuing returns. The first advisor would probably generate lower returns most of the time; the second advisor would have much higher returns in some periods, but more volatility in those returns. Simply comparing the returns without knowing about the clients' risk preference criteria is not useful and, in fact, is misleading.

   However, performance cannot be ignored when choosing *your* advisor. Think back to the scenario of choosing a surgeon for high-risk heart surgery. What are the most most important questions you would want to ask in this situation? "How many times have you done this procedure before?" and "What were the results?". In other words, you want to know about the surgeon's actual performance, based on results for all of his/her patients.

   We believe the same logic applies when choosing a financial advisor, broker, banker or registered investment advisor, and gets at the heart of why we question the usefulness of the Top Advisor rankings. Rankings should not ignore investment performance and an advisor's approach to the investment process. But the firms conducting the rankings do not have the capacity to undertake a comprehensive "performance-based" evaluation of each advisor they consider So, they acknowledge it isn't possible to do so, and attempt to compensate by including other factors in their rankings.

   Performance is a major factor in Moenio's advisor evaluations. If a firm or advisor will not share individual clients' results (redacting personal information and the clients' identities, of course), we must then do a deeper dive into other areas of their investment process giving us insight and knowledge about their level of expertise investing.

2. ***Investment Process*** – We admit it is difficult to incorporate this into a ranking. Nonetheless, the investment process, including the advisor's approach to creating and implementing individualized investment solutions, team dynamics, etc., is one of the most important factors we consider in our searches. The best advisors, those we recommend, have an intuitive ability to understand, articulate and implement their clients' wishes and needs. This matters and has a tremendous impact on client satisfaction.

Conclusion

Viewed in the best possible light, the Top Advisor rankings are, in some respects, an admirable attempt to narrow down the universe of financial advisors into a manageable number of candidates for high net worth individuals to consider. However, the truth is these rankings are also a lucrative marketing tool, for the publications that compile them as well as for the advisors (and their firms) who make it into the rankings.

Perhaps the most important takeaway is to recognize that the criteria used in the rankings offer a starting point for considering the types of questions one needs to ask when making the important decision to hire a financial advisor. At Moenio, we think about these issues every day, in serving the needs of our clients.

Who are we?

We are **MOENIO** - a client advocacy firm working on behalf of our clients to make certain they work with, or will work with, a great financial advisor.

With over 600,000 registered advisors in the United States, how do you know the advisor you might choose is one of the best?

We have four core areas clients entrust us to help:

1.

EVALUATE your current financial advisor in 16+ areas; fee's being charged, investment returns, investment products being used, background check on the advisor and firm, to name a few.

2.

FIND a great financial advisor with a customized search based on your needs and goals but making certain the advisor delivers good, risk-based returns for a fair fee.

3.

PERFORMANCE GUARD is focused on providing periodic check-ups on your investments and returns. We give you comfort in knowing your investments are being managed correctly with the right risk-adjusted returns you've agreed to and want from your advisor.

4.

ADVISOR BACKGROUND CHECK helps you understand who you are working with currently or who you might hire; do they have the right experience, client complaints or fines, are they truthful in what they said about education, credentials, and background? We verify this information on behalf of our clients.

Your interest is our sole interest.

* We are unaffiliated with any financial firm
* We do not manage assets or investments
* We do not accept fees or commissions from the advisors we recommend or evaluate