

Financial Planning vs. Investment Management

What distinguishes a financial planner from an investment manager and why you should work with one.



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David Darwish is a Principal and Senior Financial Advisor in the Naples, Florida and Fort Myers, Florida offices of HBKS® Wealth Advisors LLC. He has extensive experience in the areas of financial planning, retirement planning and asset allocation analysis. Along with having his own financial advisory client responsibilities in the Naples and Fort Myers offices, Mr. Darwish works on a team with Christopher Sorce, Jason Rundorff and Amanda Mahland in the Naples office.

Prior to joining HBKS in 2005, Mr. Darwish began his financial services career with an investment services firm in Birmingham, Alabama in the operations and discount brokerage departments. He moved to Naples, where he worked as an Investment Associate and later became a Financial Advisor with a large Wall Street firm.

Mr. Darwish earned a Bachelor of Science degree in Finance from the University of Alabama in Birmingham and is a CERTIFIED FINANCIAL PLANNER™.

As election night 2016 came to its surprising end, investors were understandably confused. Some panicked using the earliest foreign exchanges to open to dump stocks. Prognosticators had predicted a precipitous fall in the Dow and S&P should Trump win the election, and as a Trump victory became a certainty, uncertainty about an outsider in the White House choked the markets. At one point overnight Dow futures were down 850 points. But by morning, even before U.S. exchanges opened, the vast majority of losses had been reversed. When the markets did open, the indexes were on the rise, and by the end of the day, the Dow was up more than 250 points.

Our investments represent security, the enablers of our future plans and goals, our life's financial accomplishments. So it is natural that we become fearful in times of uncertainty and react amid unexpected change. But the election night market rollercoaster, more like a Ferris wheel, shined a bright light on how mistaken we can be when we try to time the market or when we react emotionally.

As financial advisors, our role is to subtract the fear and uncertainty from investing. We do it through planning. We learn of your objectives, your needs, your concerns, and we work with you to build a plan that addresses all of those. We monitor your progress and altering life situations to make adjustments to the plan so that it continues to accommodate your objectives, needs and concerns. It is what differs us as financial advisors, more specifically, CERTIFIED FINANCIAL PLANNERS™, from brokers or investment managers.

Ben Carson, a CERTIFIED FINANCIAL PLANNER™, blogger and author of *A Wealth of Common Sense*, focused on that difference in his October 13 blog. His distinctions reflect how we distinguish our work here at HBKS. A few of his points and some comments:

Carson:

Investment management is about managing investments. Financial advice is about managing investors.

As financial advisors, our role is to subtract the fear and uncertainty from investing. We do it through planning. We learn of your objectives, your needs, your concerns and we work with you to build a plan that addresses all of those.

Comment:

Many of us worked early in our careers for the big brokerage houses. We bought and sold stocks. We listened and read and tried to pick winners. At HBKS Wealth Advisors, we begin our work with a client by developing a financial plan around the client's goals. The plan includes such considerations as asset allocation, expected returns and risk tolerance, but also addresses such issues as cash flow, children's education, retirement, insurance, and always, tax efficiency.

We're not stock pickers. Moreover, we work with selected investment managers for each category within the asset allocation to build a globally diversified portfolio that smoothes out volatility while providing exposure to many asset classes. We make sure managers stay consistent with the asset classes they are expected to manage. For example, if we hire a large-cap growth manager, we want that manager sticking to that discipline. And we want them to perform well against their respective benchmarks and be competitive with their internal expenses.

Carson:

Investment management is about portfolio construction and risk management. Financial advice is about comprehensive financial planning and emotional management.

Comment:

Our job includes managing expectations and it is also a lot about managing emotions. The plan is designed to reach the goals you have set, and avoiding unnecessary risks that aren't consistent with those goals. When an event can cause a knee-jerk reaction, we help you stay focused on your long-term goals, to keep your eyes on the big picture as opposed to reacting to what's happening day-to-day. The planning process, having a plan and a strategy, is what separates us from the broker.

Our role as consultants is reflected in our fee-based structure. We're making recommendations to our clients based on what is in their best interests. In most cases, we do not earn commissions; we grow our earnings by growing our clients' portfolios. Our and our clients' goals are the same: grow their portfolios while reducing risk and staying focused on their ultimate financial objectives. We sit on the same side of the table as our clients, which allows us to be objective.

As financial planners working in an advisory capacity, we are completely focused on your interests, understanding holistically your life circumstances, goals and overall financial condition.

Carson:

Investment management is about tax loss harvesting. Financial advice helps you understand your own personal tax situation.

Comment:

At the end of the year, brokers sell stock losers to offset gains. Tax harvesting can be helpful but is only one small aspect of tax efficiency. Through effective financial planning, we learn the tax implications of various investments. An investment that might produce gains could put you in a higher tax bracket and wind up costing you money; it could phase you out of certain deductions. For example, owning municipal bonds that produce tax-free income can be a good strategy for individuals in higher

tax brackets, whereas a limited partnership might have adverse tax effects. Allocations should be made based on a thorough understanding of your tax situation.

Carson:

Investment management helps you understand how much you need to earn on your investments to meet future spending needs. Financial advice helps you understand how much you need to save to meet future spending needs.

Comment:

How much do you need for retirement and how much have you saved so far? The financial planning process allows us to answer those questions with greater certainty. It addresses the type of accounts you are using to build wealth and includes assumptions about how changing interest rates and inflation will affect your savings. It considers life-altering events like a disability, early retirement or a need for long-term care. Financial planning addresses all the relevant issues.

As financial planners working in an advisory capacity, we are completely focused on your interests, understanding holistically your life circumstances, goals and overall financial condition. Independence, breadth and depth of expertise, a service culture: they are the keys to serving discerning investors, and what we do at HBKS that separate us from the banks and wirehouses and distinguish us among our peers. □

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