8 Reasons You Should Be Your Own Financial Advisor

I spend a lot of time interacting with financial advisors, helping readers find advisors and address issues with their advisors, and evaluating advisors for inclusion on my recommended advisor list. While I think there are lots of decent people out there providing advice, and even a few competent, ethical, low-cost advisors (even if they're the tiny minority of their profession) I am left with the gnawing feeling that this is so much easier to just learn how to do it yourself. So in that spirit, here are 8 reasons to be your own financial advisor.

 # 1 You will save a lot of money

Financial advice, even low-cost financial advice, is expensive stuff. It has gotten to the point where I think if you're only paying four figures a year that you're getting a good deal. But even just $10,000 per year invested for 30 years at 8% grows to be $1.2M dollars. Most Americans and many doctors retire on less than that. And there are plenty of docs out there paying MORE than $10K a year in total investment costs. Consider an advisor charging just 1% who is putting you into mutual funds with an average expense ratio of 1%. If you have a $2M portfolio you’re paying $40K a year! And that’s not counting any commissions, 401(k) fees etc. That kind of money really adds up. The less you spend on advice, the more you get to keep. That means you can save less now, spend more later, take less risk over the years, and/or retire sooner. It really does make a difference.

Some investors may worry that they won’t do as good a job as a professional advisor. That’s a realistic concern for many high-income professionals. But bear in mind you don’t have to do better than the advisor. You don’t even have to do as well as the advisor. You only have to do as well as the advisor minus the cost of his advice, and that’s an easier benchmark to beat. In my experience, it is rare for a very early retiree to use a traditional financial advisor. Those retirees might not know everything, but they know enough and they coupled it with a very high savings rate partially enabled by saving advisory fees.

 # 2 You won’t rip yourself off on purpose

Competent advisors are sometimes appalled when I share stories with them that readers have shared with me. They had no idea how many self-styled “advisors” there are that are either crooked or completely incompetent. You’re not going to go “Bernie Madoff” on your own portfolio. Nor are you going to purposely sell yourself a crappy mutual fund or whole life insurance policy in order to make a commission. Might you make some mistakes? Sure. But they’ll be innocent ones, and those usually have much lower consequences than having someone doing everything they can to transfer wealth from your account to theirs.

My Six Year Old "Hanging Ten" at Lake Powell

 # 3 You don't have to learn how to recognize a good advisor

I've said many times that by the time you know how to recognize a good advisor, you probably know enough to be your own financial advisor. It's a bit like finding a good doc if you don't know anything about medicine. Asking your physician friends for a referral to an advisor is like asking your carpenter friends for a referral to a doctor. Sure, they might know about their bedside manner, but they have no idea of their clinical competence.

There isn't that much to learn nor that much discipline required to be your own financial advisor and investment manager. Heck, I drew up my own plan as a busy resident after reading a few books and monkeying around on the internet a bit and am still basically following that same plan today. It made me a millionaire 7 years after residency. It clearly works. I had less than 1/10th the knowledge I have now when I drew it up. But you don't have to know anything about advisor compensation models, advisor credentials, how to look an advisor up on the regulatory websites etc if you just do it yourself.

 # 4 You don't have to spend time looking for an advisor, evaluating your advisor, and finding a new advisor

The most valuable commodity for a high-income professional is his time. He can generally trade his time for money at a very high rate and he places a very high value on the limited free time he has. The last thing he wants to do is spend that time looking for an advisor.

It can be really tough to find a competent, ethical, and low-cost advisor, much less someone you feel is a good fit. I had someone email me recently saying I didn't have enough advisors on the list who were Indian women. Seriously. I can't find enough advisors I'd send my brother to of ANY race, creed, color, nationality, religion, sexuality, age, gender, location or background. You want one that is competent, ethical, low-cost AND shares your religion? Forget about it. It's like a needle in a haystack just to find someone with 10 years experience, who invests passively, and who charges less than $5K a year for investment management.

To make matters worse, you're not even done once you find one. If you're even appropriately suspicious, you should then have this constant worry in the back of your mind (at least for the first few years) that he's taking advantage of you or doesn't know what he's doing. So you're always evaluating his advice, maybe getting second opinions from other advisors or internet forums, and then possibly even starting the process over. And that advisor is going to retire eventually. If you were smart and hired someone experienced the first time, you're almost surely going to have to replace him once, if not twice as advisors retire. You only have to learn to be your own advisor once.

 # 5 You don't have to spend time meeting with an advisor

I drove downtown for a meeting this afternoon. The meeting ran an hour and a half. Between driving through traffic, parking, walking around the building, and the meeting itself, I left home at 3:15 pm and returned at 6:45. That's basically half a day for a single meeting and I had to plan my entire day around it. And that assumes you and your advisor are in the same town. If I want to meet with my advisor or see how my investments are doing, all I have to do is flip open my computer. I can use that saved time to earn more money, or at least go for a nice mountain bike ride.

 # 6 You only have to learn the stuff that actually applies to your life

Advisors hoping to sell you their services rightly point out that there are lot of complicated things in personal finance and investment management. IBR vs REPAYE, PSLF vs refinancing, 401(k) vs defined benefit plan, Backdoor Roth IRAs, the tax code, mortgages, active versus passive investing, options, muni bond yields, revocable trusts etc etc etc. It can seem so overwhelming. Until you realize you don't have to know it all to be your own advisor. You only have to know the stuff that applies to you. Once your student loans are gone, you no longer have to know a thing about managing them. Same with a mortgage. Once you buy your dream home and pay off the mortgage, who cares what's available out there. Same with claiming Social Security. You don't have to know that before your 60s and only have to make the decision once. You don't have to keep up to date with every change that comes out for 50 years.

The tax code is complicated, but 95% of it doesn't apply to you. And the part that does is almost exactly the same part that applied last year. If you've decided to invest in index funds, you don't have to know a single thing about trading individual stocks, options, actively managed funds, flash crashes etc. It just doesn't matter. You don't have to know about every retirement plan or every mutual fund out there. You just have to know about your 401(k) and the funds in it. You only have to buy life and disability insurance once.

You can get specialized advice as needed. Advice is available from student loan experts, insurance agents, mortgage agents, accountants and attorneys, all on an hourly or flat rate basis. You can even meet with financial advisors on an hourly basis for specialized questions or just to get a second opinion on your plan.

With personal finance and investing, the law of diminishing returns kicks in surprisingly early. Save a significant part of your salary. Invest it in a reasonable manner. Pay attention to costs and taxes. Stay the course. Not that hard. Get the big things right and you can ignore a lot of small things.

 # 7 You don't have to prevent investment misbehavior

Advisors (and studies) point out that the greatest benefit of having an advisor is to keep you from doing something stupid. While I agree it is far more likely that the individual investor will do something stupid, advisors aren't immune from performance chasing, market timing, and bailing out of a good plan in a terrible market. Especially if they are paid on an AUM basis. They see their income going down right along with your assets and it can cause them to panic. When you are your own advisor, you only have to control one person's emotions.

 # 8 You'll pay more attention to your financial life

But the greatest benefit of being your own advisor is that you cannot mentally put the responsibility for your financial salvation on someone else. The buck stops with you. Knowing that should cause you to pay more attention to your spending, your investing, your insurance, your estate planning, your asset protection etc. You know you need to do some "Continuing Financial Education" each year because no one else is doing it for you. I'm confident that those who spend more time thinking about saving money, investing well, and becoming financially independent are far more likely to actually do it than those who only think about these subjects twice a year.

All that said, I'm well aware that most docs are going to be better off connecting with a competent, ethical, low-fee advisor. But for most of them, that isn't because they cannot become their own advisor. It is because they choose not to. For those people wanting or needing a good advisor, I keep a list of recommended advisors. For the rest of us, go look in the mirror and get to work.

What do you think? Are you a do-it-yourself investor? Why or why not? Have you ever used an advisor? Good experience or bad? Why did you choose to fire him? Did you do it yourself in the past and now use an advisor? Why the change? Comment below!