



Seven key questions to ask when choosing a financial adviser

By Leonard Barry, MS, CFP®

If you prefer to delegate the management of your investment portfolio rather than do it yourself, it is wise to choose your financial adviser carefully. Your adviser must be someone you can trust to manage your money and look out for your interests, now and in the future.

Consider the following questions when choosing a financial adviser:

What services do you offer?

The best financial advisers take a broad approach to your financial situation. Look for an adviser who offers comprehensive financial planning in addition to investment counseling and asset management services. Comprehensive planning can include advice on areas such as retirement planning, education funding, charitable giving, insurance, taxes, and estate planning.

What credentials do you hold?

Anyone can use the title “financial adviser” or “financial planner.” Consumers can rely on credentials to help assess a financial adviser’s qualifications. The following are common reputable credentials:

- A CERTIFIED FINANCIAL PLANNER™ professional has demonstrated educational knowledge of the major components of financial planning, passed a comprehensive examination, satisfied a work experience requirement, and agreed to adhere to a code of ethics.
- A Chartered Financial Analyst® charterholder has completed a rigorous self-study graduate-level program in investments and portfolio management, passed three examinations, satisfied a work experience requirement, and agreed to adhere to a code of ethics.

- A Chartered Financial Consultant® has completed courses in the major components of financial planning and satisfied a work experience requirement.
- A graduate degree in a field such as finance, economics, financial planning, or business administration can signify knowledge relevant to assisting clients with financial planning and investment management.

How are you compensated?

There are three main ways financial advisers get paid: commissions only, a combination of commissions and fees, or fees only. You should understand how your adviser is compensated, because this could create a conflict of interest. An adviser who receives commissions may have an incentive to use investments that are more lucrative for the adviser. By contrast, a “fee-only” adviser does not receive any type of commission from the investments he or she recommends.

It is also important to understand what commissions or charges, if any, are associated with the investment products your adviser uses. These commissions or charges may directly or indirectly compensate the adviser or the adviser’s firm. For example, many advisers use mutual funds because they are an effective way to diversify an investment portfolio. Some mutual funds are “no-load,” which means there is no up-front fee to buy, or a deferred fee if you sell within a certain number of years. There are a variety of options when buying mutual funds, so ensure that you read the product’s prospectus carefully and understand the product before investing.

Do you have a fiduciary responsibility to your clients?

Fiduciary responsibility means the adviser is legally obligated to act in the client’s best interest. This is true of advisers who work for firms that are Registered Investment Advisers. It is also true of Certified Public Accountants (CPAs) and attorneys. The investing public generally does not realize that other professionals may not be legally obligated to act in the client’s best interest. On the other hand, many professionals belong to, or are regulated by, professional associations that impose standards for ethical practice.

What experience do you have?

In addition to formal education and credentials, what is the adviser’s professional experience? Does this adviser have a proven track record? If the adviser appears less experienced, what are the firm’s policies for mentoring and supervising financial advisers?

Look for an adviser who is affiliated with a firm that has established processes and a shared investment philosophy. How are investment decisions made? It is a good sign if a firm has a disciplined investment approach that all of its advisers follow.

How will you report the performance of my investment portfolio?

There should be no mystery about the performance of your investments. You should expect regular reports in an easy-to-understand format that shows the portfolio performance, net of all fees. Request a sample report and ask the adviser to walk you through it.

What is your disciplinary history?

The financial professions are highly regulated. If a financial adviser has been disciplined, he or she should be willing to explain the source and result of the action. You can check the adviser's disciplinary history by contacting the following organizations:

- The North American Securities Administrators Association, 202.737.0900, www.nasaa.org
- The Financial Industry Regulatory Authority, 800.289.9999, www.finra.org
- The National Association of Insurance Commissioners, 816.842.3600, www.naic.org

Conclusion

A comfortable retirement, higher education for your children or grandchildren, travel, a vacation home, charitable gifts, a legacy for your family - whatever your goals are - keep in mind that money is merely a means to an end. Look for a financial advisor who puts your interests first.

For more information or to contact Leonard Barry, please visit the Our Professionals page of www.svawealth.com.

This article was written for and published in *The Wisconsin Medical Journal*, 2008.

Source Data: North American Securities Administrators Associations, Financial Industry Regulatory Authority, National Association of Insurance Commissioners, Certified Financial Planner Board of Standards, CFA Institute