DecisionPoint
Financial Wellness

The Power of Questions

QuickGuides

Helping You be an Informed, Aware and Careful Consumer

Finding Mr. or Ms. “Right”

Part 1: 8 Questions to Ask Yourself

This guide offers eight question for you to consider asking yourself as part of your overall due diligence in vetting and selecting a financial advisor. Completing this eight-point self-assessment can help you two ways: 1) help you identify what you’re looking for in an advisory relationship, and which types of investment products and services may be more appropriate for you based upon your needs, preferences and financial situation, 2) if you’re already working with an advisor, it will help you assess whether your needs and preferences have changed since you started working with your advisor, and help you determine whether your advisor continues to be Mr. or Ms. “Right” for you.

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Your relationship with a financial advisor should be one of your most important and valuable professional relationships. The nature of the relationship, the intent and integrity of your advisor, and his or her measurable competency can have a tremendous impact on your financial well-being.

Regardless of whether the relationship between you and your advisor only involves your investments, or is broader in scope and more complex, *your needs and interests must come first* in the relationship. How does your advisor demonstrate this? It's simple: two attributes need to show up in the relationship:

- ☐ Openness
- ☐ Accountability

These attributes are intuitive, and apply to any important personal or professional relationship. When this combination of inter-relationship decency and business ethics are present, a third attribute of a quality relationship shows up:

- ☐ Trust

You can't afford a relationship that doesn't work this way.

Finding Mr. or Ms. "Right"

Where do you start looking for the right financial advisor for you? Sources include:

- ☐ Brokerage/Advisory Firm Websites

  These websites allow you to locate a branch office in your area. Typically, the branch office website posts the bios of the brokers/advisers in that office.

- ☐ Organizations That Issue Professional Designations

  To learn about professional designations, visit the Financial Industry Regulatory Authority (FINRA) website at www.finra.org and click on Tools & Calculators, then "Understanding Professional Designations". If you think a particular professional designation may be of value to your financial situation, visit the website of the issuing organization to search for a designation holder in your area.

- ☐ Online Referral Sites

  While many highly-qualified financial advisors promote themselves on these sites, be careful. As with online dating sites, what you see *may not* be what you get.

What to Do

1. Read QuickGuide "Financial Advisors: Who's Who and What They Do"
2. Read through the "Notes and Explanations" section this guide before starting the self-assessment.
3. Complete the self-assessment. It's the first step in helping you find a financial advisor who's right for your needs and preferences. Let's get started.

Self-Assessment

8 Questions to Ask Yourself

1. Which type of account/advisory relationship is right for you?

   ☐ Commission-based brokerage (account held with your advisor/broker)

   ☐ Fee-based advisory (account held with your advisor)

   ☐ As a percent of your account's value

   ☐ Project rate/hourly rate

   ☐ Project rate/hourly rate. Account held at a discount brokerage firm other than the advisor's firm. I'll make the recommended transactions myself.

   ☐ Not sure. Would like my advisor to explain the differences, benefits and drawbacks of each option before I decide.

2. Regardless of the terms of the account agreement, do you want to work with an advisor who will commit to put your interests first in the handling of your account?

   ☐ Yes ☐ No

3. Which types of investments do you think may be appropriate for you?

Individual stocks	☐ Yes	☐ No	☐ Not sure
Individual bonds	☐ Yes	☐ No	☐ Not sure
Exchange traded funds (ETF)	☐ Yes	☐ No	☐ Not sure
Mutual Funds	☐ Yes	☐ No	☐ Not sure
Annuities / insurance	☐ Yes	☐ No	☐ Not sure
Socially-responsible (SRI)	☐ Yes	☐ No	☐ Not sure
Local/Community investing	☐ Yes	☐ No	☐ Not sure

   Other: ____

   ☐ I would like my advisor to determine what types of investments are appropriate for me.

4. If you own a business, rental property or collectables (fine art, coins, stamps, cars, etc.), do you want an advisor who would take this/these into consideration when providing advice?

   ☐ Yes ☐ No ☐ N/A

If "Yes", please describe:____

5. Are you interested in other services? (Check those services that are important now, and those that could be important in the future.)

- ☐ Financial planning
- ☐ Tax-efficient investment/income strategies
- ☐ Insurance planning
- ☐ IRA/retirement plan withdrawal strategies
- ☐ Legacy planning
- ☐ Elder care planning (For a family member)
- ☐ Post-divorce planning
- ☐ Special needs (child/adult) planning
- ☐ Other: ____
- ☐ Not applicable/no interest

6. Do you have personal circumstances, concerns and/or issues beyond investment management you would like the advisor to know about?

☐ Yes ☐ No

If "Yes", please describe using key phrases:____________________________

7. Do you want an advisory relationship in which the advisor provides periodic performance reports that include a way for you to gauge how your account did against an appropriate benchmark of market indices or your goals-based benchmark?

☐ Yes ☐ Indifferent

8. Do you want an advisory relationship in which the advisor provides periodic reports that disclose all the costs (including underlying expenses) associated with the management of your account?

☐ Yes ☐ Indifferent

Notes and Explanations

Reviewing Your Responses

1. *Which type of account/advisory relationship is right for you?*

   There are basically two types of accounts you can open with a financial advisor: a commission-based brokerage account, or a fee-based advisory account.

Commission-based Brokerage Account

- ☐ In a commission-based brokerage account, the financial advisor is paid a sales commission for transactions in the account

- ☐ The advisor is held to a "suitability" standard of care. Under the suitability standard of care, the advisor has a regulatory obligation to have a reasonable basis for believing the strategy or transaction being recommended to you is suitable (right) for your needs, financial situation, investment objective, risk tolerance, investment experience, etc.

  Special Note: the "suitability" standard of care does not guarantee protection from questionable sales practices and self-serving registered representatives. No rule or standard can do that.

- ☐ A commission-based brokerage account is a "non-discretionary" account. This means the advisor can't make transactions in your account at his or her discretion. The advisor has a regulatory obligation to get your authorization for each transaction prior to execution.

- ☐ If your account is uncomplicated and trading activity (buying and selling) is infrequent, a commission-based brokerage account may be lower in total costs than a fee-based account.

Fee-based Advisory Account

- ☐ In a fee-based advisory account the financial advisor is compensated by charging a fee. Typically, the fee is stated as a percent of the account value. This is referred to as an asset-based fee. For example, if your account was valued at $50,000 and the advisor charged a 1.5% advisory fee, the annual fee would be $750 (assuming no increase or decrease in account value).

  Some advisers charge a project or hourly rate for services. Depending on the scope and complexity of your needs, hourly rates are generally between $100 and $300 an hour. Flat rates are usually calculated based upon the number of hours the advisor estimates it will take to complete the service.

- ☐ In a fee-based advisory account, your advisor is held to a "fiduciary" standard of care. This means that every consideration, decision and transaction must be made exclusively for your benefit without regard to the financial interests or other interests of your advisor. Any conflicts of interest must be disclosed up front. The fiduciary standard is the highest standard of care.

  Special Note: The fiduciary standard doesn't guarantee protection from unethical practices. No rule or standard can do that. Also, you can't assume that an adviser held to the fiduciary standard is necessarily more ethical than a registered rep/broker or insurance agent held to the lower, suitability standard of care. *It all comes down to the intent and integrity of the individual advisor.*

- ☐ In some fee-based accounts, your advisor can act with "discretion". This means your advisor can make investment decisions (buys and sells) in your account on your behalf without prior authorization from you.

- ☐ If you generally prefer to buy and hold your investments or trade infrequently, then a fee-based advisory account may have higher total costs than a commission-based brokerage account.

2. *Regardless of the terms of the account agreement, do you want an advisor who will commit to always place your interests first in the handling of your account?*

   The last question was about account types and the applicable *regulatory* standard of care. This question is *personal*. It's about the nature of the relationship between you and your advisor, and your advisor's intent. You can't afford to enter a relationship with a financial advisor who doesn't willingly put your interests first.

3. *Which types of investments do you think may be appropriate for you?*

   Depending on your investment knowledge and experience, your investment objective and risk tolerance, certain types of investments may be more appropriate for you than others. For example, if you like broadly-diversified investments like mutual funds and ETFs, then individual stocks may not be the right choice for you. Your advisor is obligated to only use investments that are appropriate (suitable) for you.

   Note: if you don't understand the investment despite the best efforts of your advisor to explain it, the investment probably is right for you.

   Special Notes: If you are interested in socially-responsible approach to investing (SRI), values-based or impact investing, it's important to confirm that the advisor truly espouses your values, and that his or her investment management practices are aligned with generally-accepted principles and methodologies.

   While shifting capital back into our local communities can have a tremendous impact on both our towns and our own lives, investing locally also carries special risk. If you are going to invest locally, it's important to work with a firm who not only specializes in this, but is also an active part of the movement itself.

4. *If you own a business, rental property or collectables (fine art, coins, stamps, cars, etc.), do you want an advisor who would take this/these into consideration when providing advice?*

   If you have illiquid assets/collectables, or a high percentage of your total net worth tied up in one or two holdings or you own a business, it may be in your best interests to work with an advisor who has extensive experience or expertise in coordinating outside investments/assets with traditional financial securities.

5. *Are you interested in other services?*

   While investment management is the primary service provided by most registered reps/brokers, RIAs and IARs, many are qualified to offer other important financial-related services. On the checklist, check those services that are important to you now, and those that could be important in the future.

   Note: if other services are important to you, it's important to know whether your current advisor, or the advisor you're considering working with, is truly qualified to provide those services, meaning they have either authoritative knowledge and experience in providing the service, specialized training, a professional designation or other credentials.

6. *Do you have personal circumstances, concerns and/or issues beyond investment management you would like the advisor to know about?*

   Good advisors understand that money management is often only a small part of a larger context that may include health and family-related matters, personal issues, and past experiences with financial advisors and certain types of investments. Itemize these so you can discuss them with the advisor during your interview.

7. *Do you want an advisory relationship in which the advisor provides periodic performance reports that include a way for you to gauge how your account did against an appropriate benchmark of market indices or your goals-based benchmark?*

   Saying your account "did pretty well" or was "down just a little" is a very loose way of evaluating how your investments are doing. A better way is to have your financial advisor answer two important questions about your account: "how is it doing?" and "compared to what?" Not knowing the answer to this two-part question could be costing you hundreds or even thousands of dollars a year from underperformance that could keep you from meeting your goals.

8. *Do you want an advisory relationship in which the advisor provides periodic reports that disclose all the costs (including hidden fees) associated with the management of your account?*

   The total costs associated with your account may include more than the advisory fee you pay your advisor, or the commissions and front-end sales charges you pay. It can also include mark-ups and mark-downs on bond transactions, internal expenses you pay on mutual funds and exchange-traded funds (ETF) and other underlying expenses. You could pay hundreds or even thousands of dollars every year in fees and expenses you don't even know about. That's not good business.