The Power of Questions

QuickGuides

Helping You be an Informed, Aware and Careful Consumer

Finding Mr. or Ms. “Right”

Part 2: 10 Questions to Ask the Advisor

This guide offers ten questions for you to consider asking financial advisors as part of your overall due diligence in vetting and selecting a financial advisor. The list of questions in this guide is to be completed by the financial advisor you are evaluating. It provides an easy way for you to identify advisors whose business model and services are more aligned with your needs, preferences, financial situation and personality.

Note: several questions in the “Advisor Questionnaire” directly correspond to questions in Part 1. These are noted in the “Notes and Explanations” section of this guide.

Contents

Instructions

What to Do

1. Read the QuickGuide “Financial Advisors: Who’s Who, and What They Do”, first.
2. Provide the advisor with a copy of the “Advisor Questionnaire” complete. (Print pages 3 to 5).
3. Schedule a meeting with the advisor to go over the completed questionnaire (recommended), or you can just have the advisor send it to you.
4. If you do schedule a meeting, bring your completed self-assessment from Part 1. It will serve as a reference for you and the advisor, and may provide additional clarity and understanding.
5. Refer to the “Notes and Explanations” section when reviewing the completed “Advisor Questionnaire”.

Advisor Questionnaire

10 Questions to Ask the Advisor

Financial Advisor: ____

Brokerage/Advisory Firm: ____

1. What types of accounts do you offer?

   ☐ Commission-based brokerage

   ☐ Fee-based advisory

      ☐ As a percent of 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.

2. Please confirm that you will always place my financial interests first.

   ☐ I will

3. What are your clients like? (Key phrases)

   ____

   ____

   ____

4. As their advisor, how do you view your role with them? (Key phrases)

   ____

   ____

   ____

5. What is your educational or professional background?

   ____

   ____

6. Do you have professional designations or other credentials? ☐ Yes ☐ No

   Designation/Credential: ____

   Designation/Credential: ____

   Designation/Credential: ____

7. What types of investments do you typically use, and how are you compensated for using them? (Check all that may apply)

Investment Type	Commission	Fee
Individual stocks	☐	☐
Individual bonds	☐	☐
Exchange traded funds (ETF)	☐	☐
Mutual Funds	☐	☐
Annuities / insurance	☐	☐
Alternatives (real estate, natural resources, etc.)	☐	☐
Socially-responsible (SRI)	☐	☐
Local/Community investing	☐	☐
Other: ___________________________		

8. What other services do you provide? (Check all that apply)

☐ 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: ____

8.1 Are there additional costs for these services?

☐ Yes ☐ No If "Yes" $: _____________________

8.2 Please confirm that you are qualified by extensive experience, specialized training, professional designation or other credential to provide these services

☐ I am

9. Will you provide periodic performance reports that include a way for me to gauge how my account did against an appropriate benchmark of market indices or my goals-based benchmark?

☐ Yes ☐ No

10. Will you disclose all costs associated with the investment management of my account, at least annually? (Costs include: advisory fees, commissions, sales charges, mark-up/mark-downs, internal expenses and any other underlying expenses.)

☐ Yes ☐ No

3 Additional Questions

1. How and when will you communicate with me, and what delivery options are available for receiving statements, reports and other correspondence?

2. Who else may be handling my account?

   Names:

3. If you are no longer able to handle your client's accounts, do you have a succession plan in place?

   ☐ Yes ☐ No

Notes and Explanations

Reviewing the Responses

1. *What types of accounts do you offer?*

   There are two types of accounts you can open with a financial advisor: a commission -based brokerage account in which the advisor is held to a "suitability" standard of care, and a fee-based advisory account in which the advisor is held to a "fiduciary" standard of care. For a refresher on this, refer to question 1 in the "Notes and Explanations" section in Part 1.

2. *Will you commit to always place my interests first in the handling of my account*?

   Note: this question corresponds with question 2 in Part 1.

   Question 1 was about account type and the applicable *regulatory* standard of care. This question is about the nature of the relationship between you and the advisor, and the advisor's intent. You can't afford to enter a relationship with a financial advisor who doesn't willingly put your financial needs and interests first.

   Point to Ponder: With every recommendation and every action, your financial advisor makes a conscious decision to either put your interests first, or their own interests first. Regulations and "standard of care" rules do not guide this decision. It's guided by personal integrity, or by the absence of this trait.

   ? What does a good answer look like?

   The "I will" box is checked. If it can't be checked, there may not be a reason to continue with the questionnaire.

3. *What are your clients like?*

   If you're seeking comprehensive financial planning and prefer investing in lower-risk mutual funds, for example, and the financial advisor's clients are aggressive stock traders, you're definitely not going to fit in!

   ? What does a good answer look like?

   Are there general similarities between your financial needs and preferences and those of the advisor's clients?

4. *As their advisor, how do you view your role with them?*

   This question provides insight into the advisor, i.e., how they view their occupation/ profession, themselves, and their customers/clients.

   Note: some advisors view their occupation as a business in which they serve their customers. Consequently, these advisors may have a narrower view their role with their customers. It may be limited to investment management and providing commentary and recommendations on investment and market-related matters. Other advisors may take a deeper and more spacious view of their role. They view their occupation as a profession in which they advise their clients. In this instance, the advisor may provide services and advice that go beyond investment management to include financial, retirement and insurance planning, or specialized services and advice on family-related matters like special needs planning for children, and post-divorce planning.

? What does a good answer look like?

One that expresses what you're looking for in a business/professional relationship with a financial advisor.

5. *What is your educational and professional background?*

   While many firms require their advisors to have a bachelor's degree, many advisors do not. A financial advisor can be highly-qualified without having a college degree.

6. *Do you have professional designations or other credentials?*

   Some advisors choose to earn a professional designation by taking specialized coursework.

   Helpful Tip: depending on your financial situation and needs, advisors with certain professional designations may be of value to you. For example, an advisor with a professional designation in financial planning may be regarded as more qualified to provide this service than an advisor without the designation.

7. *What types of investments do you typically use, and how are you compensated for using them?*

   Note: this question corresponds with question 3 in Part 1.

   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. The advisor is obligated to only use investments that are right for you. Note: if you don't understand the investment despite the best efforts of the advisor to explain it to you, it probably isn't right for you.

   ? What does a good answer look like?

   You expect the advisor to check all the types of investments that might be used in your account, and how he or she is compensated for using those investments.

8. *What other services do you provide?*

   Note: this question corresponds with question 5 in Part 1.

   While skillful management of your investments is always important, you may have other financial-related needs that are equally important to you.

   ? What does a good answer look like?

   The boxes next to services you need, or anticipate needing, are checked. While most advisors provide these services for no additional charge, some advisors do charge a fee. Make sure the fee is disclosed. Also, when providing these services, you want to know if the advisor is truly qualified to provide them (question 8.2), meaning they have either authoritative knowledge and extensive experience, specialized training, a professional designation or other credentials that make them qualified to provide those services. The fact that the advisor can create a plan or generate a report through their brokerage/advisory firm or third party doesn't mean the advisor is truly qualified to provide the service.

? What does a good answer look like?

The "Yes" box is checked.

9. *Will you provide periodic performance reports that include a way for me to gauge how my account did against an appropriate benchmark of market indices or my goals-based benchmark?*

   Note: this question corresponds with question 7 in Part 1.

   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 cost you hundreds or even thousands of dollars every year from underperformance.

   Some helpful detail: Market indexes are typically used for the "compared to what" part. These indexes serve as "benchmarks". For example, the S&P 500 index may serve as a benchmark to compare the returns of stocks/stock mutual funds in your account. There are hundreds of market indexes the advisor can choose from to accurately benchmark your account's return. The advisor is happy to explain benchmarking and how it works, and why it's important.

   ? What does a good answer look like?

   The "Yes" box is checked.

10. *Will you disclose all costs associated with the investment management of my account, at least annually?*

    Note: this question corresponds with question 8 in Part 1.

    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.

    ? What does a good answer look like?

    The "Yes" box is checked.

Notes and Explanations

For the 3 Additional Questions

1. *How and when will you communicate with me, and what delivery options do I have for statements, reports and other correspondence?*

   Note: while most advisors meet with their clients at least annually, many advisors schedule more-frequent meetings. Most advisors also make periodic "just checking in" calls to their clients. The advisor is happy to accommodate your preferences for the frequency of meetings and the method for ongoing communication. Also, most brokerage/advisory firms offer online access to information about your account. Statements and trade confirmations are also available online.

2. *Who else may be handling my account?*

   The advisor may be part of a team or group. And while he or she may be your primary advisor, you may interact with other members of the team/group. Most advisors will introduce you to all the members of their group and also introduce you to the sales assistant(s) and receptionist. All you need for your checklist are the names of the individuals you will most likely interact with you on a frequent basis.

3. *If you are no longer able to handle your client's accounts, do you have a succession plan in place?*

   If the advisor retires or is no longer able to handle your account, you want to know where your account would go and who would be your new advisor.

   Helpful Tip: you have no obligation to stay with the new advisor.

   ? What does a good answer look like?

   The "Yes" box is checked. An advisor who is looking out for the interests of their clients will have a succession plan in place.

Other Sources of Information

Most financial advisors have no record of disciplinary action against them. You can confirm this by contacting your state securities regulator at: http://www.nasaa.org/about-us/contact-us/contact -your-regulator/

The Financial and Insurance Regulatory Authority (FINRA) "BrokerCheck" at: http://www.finra.org/brokercheck

The Securities and Exchange Commission (SEC) at: http://www.sec.gov/investor/brokers.htm.

Note: in the normal course of doing business, a customer may file a complaint against their financial advisor. Complaints are allegation-driven and may not result in any disciplinary action. If the advisor has a complaint noted on their report, discuss the matter with them before drawing any conclusions.