

# Taking time to find an adviser may be your best investment

*It's a big decision that could have a major impact on your investment returns*



**By Dan Richards**

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Even in the face of chaotic markets and disappointing performance over the past nine months, most investors are hanging in with their financial advisers.

In a recent Ipsos Reid survey, 87 per cent of Canadians said their current adviser will be their primary adviser a year from now. Most recognize that even the best managers didn't foresee last fall's financial meltdown and that almost everyone is in the same boat.

Of course, that's not universal. Some investors are rethinking the relationship with their adviser, while others are responding to invitations to a "second opinion" on their portfolio. Some investors are questioning whether they want to

work with an adviser at all and are considering switching to a discount broker.

Working with the right adviser can have a huge effect on achieving your long-term financial goal. It's a decision that shouldn't be rushed. Some investors select the first adviser they speak to or make a decision based on an adviser's glitzy office – and later regretted the choice.

When looking for an adviser, most investors begin by asking people they know for suggestions. While a referral from someone you trust increases the odds things will work out, just because an adviser is a good fit for a friend doesn't mean he or she will be right for you.

Selecting an adviser is like any important decision. First impressions matter, but to tilt the odds of getting this right, you need to first identify the key things you're looking for (ideally in writing) and compare what you hear with that list before deciding.

There's nothing wrong with telling an adviser you'd like to sit down for a couple of in-depth discussions before making a decision.

During these meetings, you have two goals. The first is to get a sense of whether this a good fit. To help you do that you can draw from a list of 25 questions based on recent conversations with investors and advisers.

For example, here are some questions focusing on the past 12 months: How did you suggest positioning portfolios like mine going into the beginning of last year? What kinds of changes

have you recommended to clients in my situation since last fall? What kind of advice are you providing to clients like me today? How are you managing risk amid recent uncertainty? In general terms, would you share what you held in your own portfolio going into last fall and what your portfolio looks like today? What are the most important lessons you've learned from the past year's events?

The second component in making the decision is getting a reading on chemistry. Are you comfortable talking to this financial adviser? Does he really listen to your answers and appear truly interested in your situation? Does he talk in plain English? Do you like him as a person and feel you could be absolutely open with him? Do you feel that you would have confidence in his advice?

Remember, it's not only you making an assessment; in these initial meetings discerning advisers are also evaluating you and often have tough questions of their own. Today, it's not only investors who have choices as to who to work with: The best advisers can pick and choose their clients.

Among the issues advisers look at when talking to potential clients: Are you serious about entering a relationship with an adviser and sticking to your plan – or will every recommendation be looked at with suspicion, with frequent calls about investment ideas from your brother-in-law, friends or a TV oracle? What's your history of staying the course when there are bumps in the market? Will you make panicked calls about going to cash every time the market drops a bit?

How realistic are you about the level of risk required to achieve the returns you're looking for? Do you have the emotional equilibrium to deal with volatility? When things go wrong, is there a tendency to look for someone to blame? Will you fly off the handle?

Do you switch advisers every time there's a downturn? A trail of past advisers or history of complaints is a huge red flag – nobody wants a malcontent as a client.

As in any relationship, the key to success is good communication and open dialogue. Selecting an adviser that's right for you means investing the time upfront so that both you and the adviser can ask good questions – and really listen to the answers. The time spent doing this may be one of the best investments you'll make in your financial future.

Below are 25 questions you could ask a financial adviser you're considering working with, broken down into nine broad categories. These questions were developed based on in-depth conversations with investors who have recently selected a new adviser and with financial advisers themselves.

This list may seem overwhelming initially but remember, it is unlikely that you will use them all – pick the ones that are the most relevant for you.

These questions should not be used as a laundry list to blast through. To get a good handle on whether you and an adviser will work well together, exploratory meetings have to consist of a conversation, not an interrogation. That said, some of these questions can be a starting point to learn more about an adviser.

It's important to note that there are some tough questions on this list and some will require real thought by the adviser – seemingly simple questions may need complex answers. Rather than focusing on an adviser who provides quick and glib responses, look for someone who really thinks about your questions and gives considered responses.

**General background**

1. Tell me about yourself. How long have you been a financial adviser?
2. What did you do before you became a financial adviser? What made you decide to pursue this as a career?
3. What kind of qualifications do you have? Tell me more about those qualifications. What do you typically do to each year to stay current?
4. Tell me about the firm you work with? What attracted you to this firm?

**Fit and chemistry**

5. We all have preferences in the people we work with. What's the most important thing you look for in a new client? Describe the kind of client you find you work with best?
6. What's the average asset level of your clients? How many client households do you work with – and where would my portfolio fit in?
7. Tell me about the last couple of clients who left you and took their account elsewhere. Have you had any client complaints to your firm in the past couple of years?

**General approach**

8. Do you typically complete financial plans for clients like me? What would be covered in this plan? What would the process be to develop this plan?
9. I know that some advisers put their primary focus on getting the investment process right while some others also get into issues like insurance, tax planning, estate planning issues and retirement planning. Where do you fall on this spectrum?

**Investment philosophy and your portfolio**

10. What's your investment philosophy and process? In your experience, how is this different from other advisers?
11. What kind of changes would you recommend in my current portfolio? Tell me more about your reasoning for these changes. Which of my current holdings would you suggest we retain?
12. I know that some financial advisers build portfolios of stocks and bonds for clients themselves, some delegate this to money managers and some do a combination of the two. Tell me about your approach.
13. How do you go about building portfolios or choosing money managers? To what extent do you rely on research from your firm or outside parties in selecting stocks and money managers.? How do you go about monitoring portfolios or money managers?
14. I understand that there are two schools of thought about trying to get in and out of the stock market. I know some advisers are proactive about moving parts of portfolios to cash if they think the market is poised for a correction, while others believe you can't effectively time when to get in and out and tend to be fully invested all the time. Where do you stand on this issue? As well, what's your stance on making calls on getting in and out of individual sectors?

### **Communication**

15. How often do you typically meet with clients like me? How long do those meetings last? What do you cover in those meetings?
16. How have you been communicating with clients like me since last fall? What have you been doing differently as a result of the market events since September?
17. How frequently do you call clients like me between meetings? How long does it typically take to return calls from your clients?

### **Compensation**

18. In ballpark terms, what would my annual fee be if we worked together, including fees charged by money managers?
19. How are you paid? What kind of money would you make on my account annually? What would I get for that?

### **Support**

20. Tell me about the team that you have supporting you. Would you be my primary contact or would I be dealing with one of them day-to-day? What kinds of issues would I be talking to them about as opposed to you?

### **The last 12 months**

21. How did you position client portfolios like mine going into the beginning of last year?
22. What kinds of changes have you recommended to clients since last fall? What kind of advice are you providing to clients like me today?
23. What are you doing to manage risk in client portfolios in light of recent uncertainty?
24. Without getting into the actual dollar amounts, in general terms would you be willing to share what you held in your own portfolio going into last fall and what your portfolio looks like today?
25. In your opinion, what are the most important lessons you've learned as a result of the events of the past year?