

7 Questions that can save you thousands of \$

Although there is no way to guarantee that any advisor is going to be reliable, asking these questions can help you avoid making serious money mistakes when choosing and assessing an investment advisor.

1. Do I know enough about my advisor's background?

You can find regulatory records for investment advisors, stockbrokers, insurance agents and their companies online at FINRA's website (Financial Industry Regulatory Agency – a government agency that regulates financial advisors among other entities): www.finra.org

For brokers, use FINRA's BrokerCheck system: www.finra.org/brokercheck

For registered investment advisors you may use either the SEC (Securities and Exchange Commission) website or your state financial regulatory department.

SEC Website: <http://www.adviserinfo.sec.gov/>

Example of a State Website: <http://www.ct.gov/dob>

The SEC website gives you access to an investment advisor's "Form ADV" – the primary regulatory filing that describes the services the investment advisor provides and also includes information on the advisor's fees as well as business and disciplinary history over the past 10 years.

*"Part 11" of Form ADV is the regulatory/disciplinary section. You should check this section to make sure that the advisor has a clean record.

** You should be aware that the Form ADV is a self-completed form that the advisor is legally obligated to keep updated. As such it is possible that errors or omissions may escape the notice of the SEC or the state regulatory agency. If you feel that any part of the Form ADV is in error bring it up to your state or federal (SEC) regulatory agency.

For planners that have specialties in related fields there are a number of other state regulatory agencies you can check:

Examples of State Websites:

Accounting: <http://www.ct.gov/sboa>

Insurance: <http://www.ct.gov/cid>

Real Estate: <http://www.ct.gov/dcp>

2. Who is holding my assets?

Your securities (stocks, bonds, etc...) are always held by a “custodian”, similar to the way a bank holds the cash in your bank account. With the exception of several of the major brokerage firms, most brokers do not take custody of clients’ funds. Similarly it is rare for an investment advisor to take custody of clients’ funds and you should be wary of any advisor that does.

* Make sure your assets are held in custody by a reputable custodian. Some of the most established are:

- Charles Schwab (public company) founded in 1963
- Fidelity Investments (private company) founded in 1943
- LPL Financial (private company) founded in 1989
- Merrill Lynch (owned by Bank of America) founded in 1914
- Pershing (owned by Bank of New York) founded in 1939
- Sterne, Agee & Leach (private company) founded in 1901
- TD Ameritrade (public company) founded in 1975

3. Is my advisor independent?

“Fee-only” advisors are ones that bill you strictly on a percentage of the assets that they manage for you (typically 1-2% per year). Charging based on percentage of assets can limit the potential for conflicts of interest. Other compensation structures that advisors sometimes use:

- Commissions on buying or selling securities
 - Commissions on the sale of insurance products
 - Referral fees / fee splitting for introducing clients to alternative investments, other managers or products
 - Hourly billing
- or a combination of these.

* Make sure you know exactly how your advisor is going to be compensated and if there might be any conflicts of interest. If the advisor shies away from answering any of these questions you should be wary.

4. Who does my advisor work with?

Only work with an advisor that is associated with reputable businesses.

- Verify your advisor’s accounting firm – each state maintains a database of licensed firms (for CT it is www.ct.gov/sboa)
- Make sure you are writing checks to a reputable brokerage firm/custodian (see #2 above). You should receive trade confirmations and statements directly from the brokerage firm/custodian

5. How has my advisor performed vs. the benchmarks?

Many advisors maintain that it is impossible to compare their performance since they tailor each portfolio to a client's needs, but that excuse doesn't hold up. There are many ways to compare performance. For example you can ask:

- "How many of your clients beat their benchmarks this year / since inception?"
- "If you combine all your clients into a single portfolio, how did that portfolio do vs. standard benchmarks?"
- "What is the range of returns your clients actually achieved net of fees this year / last 10 years?"

* The most important points to focus on are:

- 1) You should always understand what your benchmark is and why your advisor might deviate from that benchmark, and
- 2) Understand how your advisor makes investment decisions.

** Above all your advisor should be open and honest about his performance especially his mistakes.

6. Can I explain my investment plan to my grandmother?

"Keep it Simple Sam". Your investment advisor needs to be able to explain your plan to you in terms that you can understand. You need to be comfortable with your advisor's decisions and not intimidated or confused by Wall Street jargon, fast talk or overwhelming expertise. You are the boss of your money

7. I'd like a second opinion.

Ok, this last one isn't really a question but don't hesitate to get a second opinion on your investment plan. Many people who would get a second opinion on a minor procedure like a root canal don't consider getting a second opinion on a financial decision potentially involving thousands or millions of dollars.

Many investment advisors offer free consultations and investment plans, take advantage of those offers to make sure that you and your advisor are viewing your future from an appropriate position.