Advisor Test

Use this test to see if your advisor meets the grade. You might be surprised how poorly they do. Liking your advisor shouldn't be the only criteria for keeping them. Their service should meet your expectations, and their advice should be the best available.

Questions to Ask Your Financial Advisor

1. Are you paid commissions on investments or other products you sell?

   If yes, your advisor isn't independent or objective in their advice.

2. Do you receive payments from mutual funds or investment companies you recommend?

   If yes, your advisor doesn't work for you. They work for the mutual fund company.

3. Aside from what I pay you, what other costs will I incur?

   Hidden fees can add up to a lot of money. Make sure you are getting value for the fee.

4. Are you a fiduciary?

   If they get a commission, they are not a fiduciary. Only fiduciaries are required to act in your best interest. Brokers only make sure the investment is "suitable" for you.

5. What licenses, certifications and/or credentials do you have?

   A CFP® or a CFA is a good start, but in combination with a CPA, it is even better.

6. Are you the investment manager or do you hire a manager for my investments?

   You want a professional executing your investment strategy, not a guy with a hunch. Working in a health-food store doesn't make someone a nutritionist. Neither does working for a broker or RIA make someone an investment manager.

7. If you are the investment manager, what institutional experience have you had?

   Unless they have institutional experience managing portfolios, they shouldn't be building the strategy, picking the investments, and rebalancing the accounts. Generally, retail investment managers take too much risk, don't have controls over their process, and do not follow a systematic approach to executing a time-tested strategy.

8. If you hire the manager, what due diligence do you perform and how do you pick managers?

   Not every institutional manager is qualified or appropriate for your investment needs. Your advisor should be able to discuss their process for determining the best manager for you. Hopefully, they have lots of choices and a disciplined process for selection. Too many advisors just pick the manager that pays them the most. Investment managers pay big fees to have brokers offer their strategies to clients. Many brokerage firms pick investment managers based on how much the investment manager pays them for distribution. Unless your advisor is a fiduciary, you may not be getting the best investment manager available.

9. Will you be the only person working with me?

   You want continuity in your advice. If a call center services your account, you shouldn't expect anyone to remember you each time you call. If your advisor is on a big team, you are likely to be handled by their licensed assistant or junior advisors for your day-to-day needs.

10. Do you have a good sense of which way the markets are going?

    It's fun to guess, but no one really knows which direction the markets are going. If your advisor says yes, then they are either incompetent or lying. Every academic study shows that market movements are random. In fact, one study showed that most advisors guess wrong and hurt investment performance by trying to guess. Having had prior luck guessing the right outcome is not an investment strategy. This is called outcome bias, which creates overconfidence in unproven investment strategies. Look for strategies that the best-performing institutions use.

11. How does your investment strategy perform in down markets?

    Almost all advisors will respond by telling you about diversification and staying in the market even through bad times. This is a canned response they all learn in their training. It is code for "My strategy is at the mercy of the markets. Let's just hope they go up enough to make you some money and not fire me." Except for Stone Toro, very few retail investment advisors use strategies that make money in both up and down markets. If your advisor responds by telling you that they got their clients out before the last crash, you should seriously consider moving your accounts as quickly as possible. They have no idea what they are doing.

12. How available are you to me?

    You should have direct access to your advisor. If your advisor takes on more than 100 clients, it is likely your access will be through assistants or other team members. You should have their cell phone number and know where they live. Anything less and you've hired an asset manager, not a wealth advisor or investment advisor. They should know your financial situation off the top of their head and be happy when you call them. If they are ducking your calls or sound irritated and rushed on the phone, it may be time for a new advisor.

Results

How did they do? If they failed your expectations on more than one question, you should consider hiring another advisor. It is a lot easier to move your accounts than you think. Call Stone Toro and see how we do on these questions. We'd love to earn your business.

Call Richard Jenkins:

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