your wealth

BY J. PETER HODGSON CFA

FINDING A WORLD CLASS ADVISOR

Over the last twenty years my roles have given me the opportunity to work with over 5000 advisors, across four continents (North America, Europe, Australia and Asia) as business partner, lecturer and spokesperson. This included private bankers, brokers, bankers, insurance agents, and sole owners. The majority have been women and men with integrity and possessing a strong commitment to excellence. There were those however, who I would not have appointed as my advisor. Given that saving money and building wealth is hard enough in the first place, making sure you have the right advisor is worth a diligent effort.

Trust is the most important element in a successful relationship with an advisor. Often "gut feel" rather than a research-based approach dominates the decision that an advisor warrants that trust. Often people spend more time selecting their vacation or buying a new car than choosing their financial advisor. Given that the state of your finances will strongly influence what life choices you have and your advisor should influence your finances, this decision should not be taken lightly. Unfortunately most people do not know what to look for or what questions to ask. Frequently they rely on referrals from friends who have yet to ask the hard questions.

This article will arm you with an insider's perspective on how to select an advisor, what questions you should ask, and why. You are encouraged to keep a copy and use it either in selecting a new advisor, or perhaps most importantly, reviewing your current one. You should visit the office of the advisor, the questions below will require the advisor to show evidence of excellence and diligence.

The ensuing discussions will give you the comfort of knowing you have a world class advisor, and your advisor the knowledge they are working with an informed client. Ultimately they will help you decide if "your gut" feel is justified.

The first and perhaps the most important issue is credentials. Professional ones, not just letters. Sadly, there is much confusion about credentials. Some designations are more robust than others. I will not wade into the quagmire about specific designations but instead give you the questions to come to your own conclusions. Simply, in my experience there is a linking of excellence and client outcomes with professional designations.

Once you have asked about the designations an advisor holds, the key questions to ask are: How many people hold the designation? What is the process to obtain it? What is the success/failure rate of the accreditation process. This information should be available and if it is not it should raise some doubts about how much the designation adds to the education/ability of the advisor. A high number of holders and high pass rate likely indicates the designation may not be as robust as others. Independent articles regarding the designation from reputable national or international press may provide added insight.

Another great way to approach this issue is to consider what the investment industry itself is looking for. A trip to the website of some of the fund managers and viewing manager biographies will provide you with insights as to what they view the important designations are. Most often you will see Chartered Financial Analysts (CFA), Chartered Accountants (CA), Doctorates (math based PhDs), Professional Engineers (P.Eng.) and Lawyers (LLB). A review of the professional postings and the requirements for applicants for portfolio managers or analysts in the Globe and Mail or National Post will also give you some guidance.

Designations can give further comfort as professional associations have the power to strip members of the credential for various offenses and aid as an incentive to good market practice. They will have records of any disciplinary actions a member has faced. They also provide an additional recourse for complaints in addition to the regulators and firms of the advisors.

The next area to visit with your prospective advisor is their experience. How long have they been an advisor? What other experience do they have? It is best that it is relevant to financial services. Look for both depth and breadth of experience. Ask about the firms they have worked for in the past? The previous firms may have done some of the work for you already. You are looking for quality companies, as they will always have the best pick of the talent pool. Did they involve increasingly senior roles? Success here shows that someone before you has judged the merits of the individual. The more complex your situation is the more seasoned and flexible your advisor needs to be.

Then you will want to know about the nature of their business. What is the largest client you deal with? You will be able to get a sense of how the advisor will perceive your business relative to that number. That said, large accounts will likely involve more complex situations and this will give you some insights into the depth of experience. What is the average size of your clients? A large difference here will enable you to gauge the service level you will receive. How many clients do you service? As the number goes north of two hundred the advisor will need to delegate some of the work or risk reduced service levels to clients. Is there a team behind the advisor, who are they and what roles do they serve?

What services will you be provided with? How will they be provided? What is available, investment advice, financial planning, strategic planning, estate issues and others? You are looking for a process driven approach that considers your circumstances carefully. You may find it useful to look at examples. A great advisor will, and should, ask a lot of questions. It must be situation, not product driven.

Often overlooked in the selection process is the firm itself. Why did the advisor select the firm? Ask what services the firm provides the advisor. You will want to determine if the advisor drives the investment and research process or the firm. If it is the advisor, ask why they think they are capable of doing this? What resources do they use? Ask to see some of their research material. Ask if they read the prospectus of the products they recommend. Take the question further and ask to see an example, you are looking for notations, highlights and evidence that they have exercised diligence. If they rely on the firm ask about the quality of the research at the firm. There are surveys of the various firm's investment capabilities done every year. Ask to see them. Ask to see the track record of the firm's research. If they cannot provide it you may have an easy decision to make.

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There will likely be the need to co-ordinate various aspects of your financial situation and a discussion about what other resources are available to the advisor. They should have the ability to work with other professionals including lawyers and accountants. They should have the ability to address insurance needs either internally or externally through an insurance salesperson or themselves if they are licensed.

Ask about the reporting provided by the advisor and the firm. At minimum you should have the performance of your account, not just the fund's or investment's return in isolation or from a program or newspaper. You should be able to receive ongoing year over year returns, calendar year returns and return from the inception of your account. You should also be able to compare it to various benchmarks to gauge the success of the investment program. Ask for an example.

Ask about fees and commissions. There is no correct answer, all you are looking for is a straight forward reply. Find out about your "all in" costs and what percentage that might be of your account. The further north of two percent you go the more diligent you should be. For amounts over half a million, you should be headed below 2%, and quickly, as the amount goes up. Smart structuring may well have you in the 1% range, this is, for the most part institutional pricing. Good value for advice, planning and execution (I will address fees in another discussion). I would ask about deferred sales charge funds and if they currently sell them or have in the past. If the answer is yes ask them why? There are many other choices for investors that offer better flexibility. If they use wrap accounts, spend time on how the fees are calculated and use the aforementioned framework to gauge pricing reasonableness.

A useful discussion can be around the use of leverage. You need to ask if they have used leverage for their clients. Ask why. A suitable response is that the advisor did a very careful analysis of the clients retirement needs and they forecasted a shortfall. Leverage was employed to increase the present value of investments to allow compounding of returns to close the gap. The advisor should also discuss the unique risks of this strategy. If the advisor waxes on about tax strategies, in the absence of detailed analysis and discussion of risk, it is a pass. Warren Buffet had the view that leverage was not suitable for most people. Another area that would deserve close consideration would be Segregated Fund and Universal Life proposals in the absence of other solutions and the lack of complete disclosure of all fees and commissions. They can be effective solutions but there may be other equally effective and less expensive alternatives as well.

A critical area is succession and transition plans of the advisor. Many will be familiar with having to find a new physician as a result of retirement. This can be no less frustrating when working with an Advisor. Ask how the advisor is addressing this issue. Be wary of the unspecific. There should be an articulated plan here. Assuming your health is in good shape, your investment horizon may likely exceed the employment horizon of the advisor. It should be discussed.

There are other questions that merit asking but we will pass on them for economy's sake. The list above will help separate the pros from the journeymen. The web can be a useful resource to round out this list. See, www.investorhome.com select "contents" and "choosing an advisor" or simply do a web search on selecting a financial advisor.

Finally ask them what makes them different than the other 15,000+ advisors out there. Look for an intelligent response that lacks fluff. Some may head to the "relationship" response. This is a given, as any great advisor should seek to build a relationship and understand their clients needs. You are looking for solid advantages, credentials, experience and process to help you with your situation. It is your wealth.

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