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Questions To Ask Your New Financial Adviser

By MARY PILON

For those just beginning to work with an adviser, a little due diligence at the outset can save lots of money and pain down the line. Here are some questions – with notes on answers -- to guide you through a first meeting.

(Before you schedule a first meeting, run the adviser's name through Finra's BrokerCheck at Finra.org to find information on his or her registration, past employers and record of disciplinary action, if any.)

Remember: If an adviser is cagey about giving straightforward answers to any of these questions, you should take your business elsewhere.

By actively vetting your adviser, "you're signaling to the adviser that you're an informed investor," says Steve Horan, head of private wealth at CFA Institute. "If they adviser doesn't want an informed investor, then you don't want the adviser."

Where have you worked, and for how long?

Be wary of an adviser who has skipped firms frequently in recent years, especially if his or her explanations are vague. To be sure, many brokers and advisers are changing jobs as Wall Street reorganizes, but they should be able to give clear reasons for past departures. Similarly, if there are strings of regulatory incidents, or conflicts filed against an adviser reported on his or her Finra record, you might want to steer clear.

What licenses and certifications do you hold?

Many advisers have an alphabet soup of certifications on their business cards. You can find information about certifications on their Finra filing before you meet in person. Some certifications take years of study to attain, while others only require a weekend course and an open-book exam. Finra has a handy site that explains professional designations so you can understand what these distinctions mean. (Find it at finra.org under the headings "Investors" and then "Tools and Calculators.") At the meeting, if there's a qualification you'd like your adviser to have, ask whether he or she is working toward it.

How are you paid?

Firms may have more than one way to charge their clients. Some accept flat fees, billed hourly, annually or quarterly, for advice and portfolio management. Some advisers take commissions on the sale of financial products, such as specific bonds. Still others charge clients a percentage of their total assets under management. You may get to choose how you'd like to pay.

Some people prefer advisers who charge hourly fees or a percentage of assets under care to advisers who make commissions, believing that fee-based advisers are less likely to push certain products.

Do you receive any other outside compensation?

Some advisers may have an incentive to sell you particular products, so ask whether the firm pays them an in-house bonus for pushing a certain bond, annuity or other product. An adviser should be upfront about any bonuses he or she receives for sales.

What is your client base like?

If a prospective adviser gives you details about other clients' names and financial information, you can assume that your information will be treated the same way. An adviser's description of his clients' average risk tolerance and portfolio size – as well as their financial goals – will tell you whether this adviser is a good fit. "One size does not fit all," John Gannon, Senior Vice President for Investor Education at Finra says.

Do you have a specialty?

Some financial advisers cater to the financial needs of physicians. Others deal with actors. Some zoom in on estate planning. Do a personal inventory of your needs to make sure the person sitting across the table is suited to your personal and financial goals.

Depending on your needs, specialization may or may not matter to you. If you're a small-business owner, an adviser who works with mainly corporate employees will probably get the job done, but may not be the best possible fit.

Who else will be seeing my account information and possibly managing it?

Some clients meet an adviser whom they like, only to find that someone else at the firms is handling most of the hands-on work. Ask about the other people at the firm, their qualifications and their level of involvement in the day-to-day life of your investments. It's likely that others in the office, such as an assistant who aids with paperwork or another adviser, may see your account, so try and meet them, too. If you prefer that only your adviser see your information, say so and be sure it's clearly stated in your contract.

Is your firm registered with the Securities Investor Protection Corporation (SIPC)?

SIPC can't protect investors from losses in the markets. But it does help recover investors' money in a firm in cases of fraud, theft or a firm's closure. As we saw during the financial crisis, SIPC-registered firms can offer investors of all sizes peace of mind. (SIPC was the group helping people who lost money in Bernard

Madoff's Ponzi scheme.) If a firm is not SIPC registered and goes under, your assets could vanish with it, so think long and hard before putting your money there. Go to sipc.org for more information.

Can I have a copy of your firm's ADV form?

Firms and advisers that manage $25 million in assets or more must file a form, called an ADV, with the Securities and Exchange Commission. Firms that handle less than $25 million must file with the local securities agency in their state. These forms can be dry reading, but an ADV can tell you much about a firm, including how it is organized and how many people are on staff. The first part of the form has information about an adviser's education, business history, and, if applicable, a record of problems with regulators or clients. The second part has information about an adviser's fees, services and strategies. If an adviser says the firm doesn't have an federal or state ADV form, walk away. "The worst type of fraud involves unlicensed or unregistered professionals," Mr. Gannon says.

How much time will you spend on my investments?

Investors need varying levels of guidance depending on their needs. Someone with an IRA might only need an adjustment to her asset allocation once or twice a year, whereas someone with complex tax and estate-planning issues might need more time. Ask about lead time for scheduling appointments, access via e-mail and phone, as well as how many times a year you plan to meet. Most advisers touch base with clients on a quarterly basis, with periodic checkups via e-mail.

How will you work with other people involved in my financial life?

You should know ahead of time whether an adviser also doubles as a lawyer or an accountant. One-stop shops are a great fit for many, but consider whether you're paying for a service you might already have. If you already have an accountant or lawyer, ask the adviser if he or she is willing to collaborate with outside professionals, and whether he or she has done so before. "You want to make sure that the adviser is working you're your best interest in mind," Mr. Gannon says.

What investments do you most commonly recommend to clients?

Don't invest in anything that you don't understand or that your adviser cannot satisfactorily explain to you. For example, non-high net-worth clients – also known as most of us -- should probably steer clear of hedge funds. Complex instruments like credit-default swaps are seldom suitable for individual investors.

Even now, there are risky hedge funds masquerading as mutual funds and complex instruments that might not be a good fit for everyday investors. Be sure that both you and your adviser know where your money is and how exactly it grows.

How have your investments performed in recent years?

Any adviser who promises steady, meaty returns from the stock market is irresponsible – you can assume returns, but you cannot promise them. You want to hear that your adviser is concerned with how best to manage your assets in both boom times and bust. Many advisers will cite historical data, the most common factoid being that the stock market has returned 7 percent on average for the last 30 years. But remember, that's an average – last year, some investors saw their portfolios drop by 30 or 40 percent.

Why do clients leave your firm?

There's no way to verify an adviser's answer to this, but the question can reveal a lot. Sometimes clients leave for completely valid reasons (for example, someone may move, or go with their spouse's adviser) but try to get a raw number. If it's a small shop and 10 investors have bailed in anger, walk out the door. Again, you're looking for patterns that could predict the experience you'll have. Ask how many clients an adviser has and whether he or she is willing to put you in touch with one or two.

What happens to my account if you leave the firm?

Have an exit strategy in place if adviser decides to leave the firm. Or would you stick with the firm and work with a different adviser? Are there any fees related to a client's or adviser's leaving? How much time would it take to pull assets out? Who would you call?

"People are concerned about the stability of financial institutions," Mr. Gannon says. "Regardless of what happens, you want to know how to access your money."

Describe your own portfolio.

This is another hard one to verify, but the answer you get can tell you a lot. Everyone has different needs, but if the adviser invests in a radically different strategy than he or she would advocate for you, or if the adviser doesn't invest in any of products he or she endorses, beware.

What is your philosophy of money management?

In addition to the professional designations mentioned above, some advisers might have their own in-house philosophies about money management. Ask to see a copy of any written policies or ethics codes they might have. Again, be wary of promises for guaranteed returns, secrecy in investing philosophies or any reckless trading strategies.

A good investing philosophy "should make sense" to clients, Tom Collimore, Director of Investor Education with the CFA Institute says. Some are springboards off of the CFA's code of conduct, which aims to place "the interests of clients above their own personal interests."

"Investment isn't just about the percentage return," Mr. Horan with the CFA Institute says. "It's about saying 'I have this set of needs, these things I want to accomplish and I want someone to care for this.'"

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