

How to Choose a Financial Advisor

The Nine Questions You Need to Ask – and the One Question Not to Ask



You know how to buy a refrigerator. You shop around to compare features and prices. It's the same when you're seeking the services of a financial advisor. So, interview two or three advisors so you can compare them.

And here are the nine questions you should ask advisors you're considering.

Already have an advisor?

Consider asking them the following questions, too – to confirm you've made the right choice. After all, you can always change advisors anytime!

1

Are you a fiduciary?

Fiduciaries are required to place their customers' best interests ahead of their own. Registered Investment Advisors and their representatives are required by law to adhere to a fiduciary standard. Stockbrokers and mutual fund salespeople (including those working in bank lobbies) are not required to follow that standard.

Note: Some financial advisors are "dually registered," meaning they can act as both stockbrokers and Investment Advisor Representatives. The problem is that when they make a recommendation, you may not know which hat they are wearing. We believe you should work with individuals who are solely registered as Investment Advisor Representatives who are always held to a fiduciary standard.

However, you should keep in mind that SEC registration does not imply a certain level of skill or training, so continue to do your due diligence.

2

What are the total costs I will pay to work with you?

Note the specific phrasing of this question.

Don't simply ask an advisor, "What is your fee?" – because what they earn is not the same as what you'll pay. In addition to your advisor's fee, you want to know the costs of buying the investments your advisor recommends to you.

The advisor should provide you this information in advance, and in writing – without you having to ask, frankly. Dismiss from consideration any advisor who does not explain all expenses you will incur openly and clearly.

3

How many years have you been serving as a financial planner?

How long have you been with this firm and how many other firms have you been with?

No one wants to be a surgeon's first patient. Likewise, you want an experienced advisor whose own career is stable.

It's important to ask these questions because their age can be misleading: Many advisors are career-changers, and their gray hair can hide the fact that they've been in the field for only a year or two.

Stability is equally important. Financial advisors are known to jump from firm to firm, often because they're offered a signing bonus (with the expectation they'll bring their clients with them). You want stability from your advisor, and knowing your advisor has been with their firm for many years makes it less likely they will leave anytime soon.





4

Why did you become a planner?

Unfortunately, a lot of folks get into the advisory business because they want to make a lot of money. You want an advisor who chose this profession as a calling – a genuine desire to help people. It will be easy to tell, merely by asking the question. An advisor will either hem and haw, or they'll immediately be able to share a personal story that conveys their true purpose. The most compassionate advisors are those who had a personal experience that spurred them to enter this profession. So, ask them to tell their story. And while everyone deserves to make an honest living, making money shouldn't be your advisor's primary motivation.

5

What are your career aspirations?

In many Wall Street companies, financial advisors are on a career track. Sure, they're serving clients right now, but they might not have been in that role six months ago – and they might get promoted to some other job in less than a year.

Ask the candidate if their goal is to one day manage other financial planners or join the ranks of management. That's fine for them, but not great for you – because it means you'll be assigned a new advisor, someone you didn't choose and at a timing not of your own.

You want to hire a financial advisor who loves being a financial advisor. It's their calling. That gives you confidence that you'll enjoy consistency – and the longer you're together, the better that advisor can serve you.

6

What kind of clients do you work with?

Before you describe yourself and your circumstances, ask them to answer this question. If their typical client fits your description, the advisor could be a good fit for you. You want an advisor who has extensive experience working with people just like you.





7

What is your investment strategy?



8

What changes did you make during or after 2008?



9

What changes have you made due to the pandemic?



These last three questions are related, so let's bundle them together.

The advisor must be able to clearly articulate a strong point of view regarding how money should be invested. An advisor who can't describe this clearly and succinctly, or who says "it depends on the client," is likely not a person who serves as a true advisor. Instead, they may merely be an order taker – someone who just does whatever the client tells them to do. That's not what you want from a financial advisor.

Relatedly, you want to know whether they were recommending their current strategy prior to 2008. If not, why – and when – did they change their advice? Ditto for 2020. It's important to discuss this, because advisors are likely to change their investment strategy only if that strategy isn't working. If what they are recommending now is different than it was prior to the Covid-19 pandemic, and if the advice they were giving in 2019 was different from what they were recommending in 2007, then you have to wonder whether you can trust what they're telling you to do today.

Of course, there's nothing wrong with tweaking a portfolio – say, swapping out one investment for another. But that's very different from shifting from options trading to municipal bonds to mutual funds. An advisor whose advice lacks long-term consistency is simply unreliable, and should be removed from your consideration.



⊘ The One Question Not to Ask

Don't ask for references – simply because no advisor will give you the name of a disgruntled former client. Instead, view the advisor's regulatory history at the U.S. Securities and Exchange Commission at:

www.sec.gov/check-your-investment-professional





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