

StrategicPoint of View[®]

TEN CRITICAL QUESTIONS YOU MUST ASK BEFORE **HIRING A FINANCIAL ADVISOR**

WARNING: All financial advisors are not the same.

Have the market's recent gyrations got you second-guessing yourself? Have you discovered that investing is only one piece of your total financial life? Maybe the constant changes in the tax laws have you scratching your head wondering if you should be making changes to your savings and investment strategy. Perhaps you are juggling college tuitions with retirement savings, concerned over how to provide for your children and your future at the same time. Or maybe, after caring for an elderly parent, you are wondering how you can best protect your assets from devastating health care costs and the risks of longevity.

If you're looking for some help with your money, there are many financial professionals out there who can assist you. This report details how to make sure the financial advisor that you choose is a skilled, ethical expert—someone who will put your best interests first, while helping you make or save more money.

We believe that knowing how to select a financial advisor can be even more important than making

the decision to use one. Choosing the wrong one can mean the difference between financial security and financial uncertainty.

Today's markets require extensive knowledge of investment strategies, asset classes and holdings, financial products, and financial planning. Without the capacity to look at your entire financial picture, including your retirement and spending goals, insurance needs, tax considerations and estate planning desires, a financial advisor who lacks expertise in any of these areas can end up selecting investment strategies for you that may not meet your financial goals or are inconsistent with your tolerance for risk.

In addition, some financial advisors are not required to put your interests first. They can sell you products that are deemed suitable for you, but may not be in your best interest. Look for a financial advisor who has a fiduciary duty—someone required to address your concerns without regard to his/her own welfare.

As with most complicated things in life, such as medicine or law, people need expert help. Making financial decisions without reliable information can be a painfully expensive mistake. Once you realize that you can't do it alone, how do you obtain the

[continued on next page >>](#)

services of a trained professional to assist you? Is there a way to separate the objective financial advisors from the professionals who sell products? Absolutely!

Here are ten critical questions to help you choose a financial advisor that you can trust.

**QUESTION 1:
May I see your Form ADV?**

A Form ADV is a legal document that insures you are working with a person who is a Registered Investment Advisor (RIA). This document provides complete disclosure on all aspects of how this particular RIA conducts his business. In addition, the RIA holds a fiduciary responsibility to put the clients' best interests at the fore of all business interactions. This important document outlines the advisor's educational background and fee structure. Every time an advisor changes anything in the practice (fees, procedures, products, etc.), he must change the Form ADV to reflect said revisions. If your candidate has no Form ADV, he is not subject to the same strict regulatory oversight as a Registered Investment Advisor.

**QUESTION 2:
What educational background do you have in the financial planning field?**

There are many financial people out there who do not have sufficient industry credentials and/or training for providing advice. They are really sales-people in advisor's clothing. As a rule of thumb, consider only planners that have been working in financial services for at least five years, or are *directly supervised* by an experienced professional. Many advisors tack on letters after their name to create the impression of expertise. Not all designations are created equal. The most prestigious mark for financial planners is the CFP®. A Certified Financial

Planner™ certificant has completed extensive training on 101 financial planning topics, passed a rigorous two-day exam, has at least three years of planning experience and has agreed to abide by a strict code of ethics.

**QUESTION 3:
What services do you provide?**

A company with few service offerings and minimum portfolio requirements may be geared for one group of people. Even if you do qualify, you may be a small fish in a big pond and will not receive the services you need. A company with a broad range of services allows you to select what you need now and expand or upgrade your services as your circumstances change. If a company has limited products that it can provide within your portfolio, you may be sold something that is not in your best interest.

**QUESTION 4:
How do you get paid?**

No one works for free! There are three basic ways a financial advisor can be compensated: a management fee based on a percentage of the assets under management, a commission fee generated from the sale of products, or an hourly consultation fee. Ask your advisor to spell out the annual dollar amount you would be paying for all transactions and all services requested. The price you pay should be affordable and in line with the service you receive.

In addition, make sure you understand how your financial advisor gets paid. Some advisors will lead you to believe that you do not pay them anything. In truth, they are paid commissions by their company, which in turn charges your portfolio with direct or hidden fees. Regulatory agencies such as the SEC and FINRA, along with the Certified Financial Planner™ Board of Standards, are

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increasingly requiring better disclosure of fees. But there are still ways unscrupulous advisors can lead you to believe that you are paying little or nothing for their services.

QUESTION 5:
What protection will I have to ensure my portfolio won't be invested with too much (or too little) risk?

Before any investing can take place, a financial advisor should complete a Risk Assessment and Suitability Questionnaire with a new client. This process involves a series of questions regarding the client's goals for the account, his/her willingness to accept losses, and the need to access the principal of the assets involved. The client's answers help the advisor understand how much risk the client is willing to assume in the portfolio. The advisor must then abide by these guidelines either for new purchases or for monitoring the portfolio when the underlying riskiness of an asset can change.

QUESTION 6:
Who will be watching my portfolio?

Too many investors learn the hard way that no one is watching their portfolios when the market bubbles burst or the economy suffers from financial crises. Holdings that provided excellent returns one year can rapidly become sink holes a few years later. Ask the advisor: who will be watching the portfolio and what systems are in place to make changes as economic and market conditions dictate? Your portfolio should be monitored proactively — *not* only when you make a call to your advisor.

QUESTION 7:
How will I be able to monitor my portfolio's progress?

How your portfolio is doing should not be a secret. Clients often receive monthly statements that are

confusing, at best. You should have ongoing access to your account information whenever you want it with clear representation of the appraisal of your holdings, the accounts' performance and activity that has taken place. This is best provided by online, web-based reporting. Find out if the financial advisor has tools in place to provide you with instant access to your account information.

QUESTION 8:
How many clients do you have and how many new ones do you accept each year?

It is impossible for any one person to handle thousands of clients while maintaining a high level of personal service. Make sure you feel you will be getting excellent service and advice and won't be just a number in an "I'm too busy" advisor's schedule. If the company is expanding, ask how it plans to accommodate an increase in the number of clients without sacrificing service. In addition, ensure that the company has a well-staffed client service department. Financial planning and investment management are time intensive businesses. Companies need to have an appropriate number of support personnel to provide quality service.

QUESTION 9:
How am I protected against losing my money if you take off with it or go bankrupt?

Most financial advisors cannot get their hands on your money when your account is set up properly. Your money should be held with an independent custodian, even as your advisor provides the active investment management of your accounts. In addition, your money should be insured if the custodian is closed due to bankruptcy or other financial difficulties. Ask if the custodian carries SIPC insurance, which provides \$500,000 of net equity protection, including \$100,000 for claims for cash awaiting

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reinvestment. In addition, many of the large custodians carry excess coverage, such as CAPCO (Consumer Asset Protection Company), which covers the balance of the account in the event of financial failure.

QUESTION 10:
How can I determine that a financial advisor is really worthy of my trust?

References are one way to determine the quality of your relationship with a potential advisor and his/her firm. Every financial advisor in business should have at least two satisfied clients that can serve as references. An outside professional who works with a variety of individuals in the financial services industry can be another resource to attest to the ability of the financial advice you will receive.

It's Your Money and Your Future

Though they might be awkward to ask, do not hesitate to pose these *ten* questions. If a potential advisor makes you feel uneasy when you ask these questions, do not hold back. Any advisor worthy of your trust should feel comfortable answering all of these questions. Most qualified financial advisors welcome the scrutiny—they know the potential client is well-educated, conscientious and looking for a lasting term relationship.

Finally, before visiting a firm for an initial meeting, learn as much as you can. Visit the company website, attend their seminars, ask for brochures or reports they have created, talk to friends and check them out on the Securities and Exchange Commission website, www.sec.gov. If you have done your homework and if the company has represented itself honestly, you should be able to walk out of the appointment feeling that a trustworthy relationship has begun.

Questions about this article:

Please send an email to info@strategicpoint.com.

To schedule a meeting with a StrategicPoint advisor:

Please call 401-273-1500, 1-800-597-5974 or visit www.StrategicPoint.com/schedule.

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