

It's time to grill your financial advisor

Why interrogating your advisor can really pay off.

Summary: Strategies to implement and questions to ask so no one is playing with a poker face in financial planning situations.

Key take-out: Preparing a range of questions to ask your financial advisor is good practise. If they're not willing to answer them, you should choose one who will.

Key beneficiaries: General investors. **Category:** Investment Strategy

The relationship between a financial advisor and a client requires a high degree of transparency and trust.

Just as financial advisors are required to seek sufficient personal information to meet their fiduciary obligations when providing advice, I've always believed that clients should have the rights to see their advisor's own financial plan.

It's a long-term partnership, so there should be a significant range of disclosures available to both parties. It should not be a one-way information flow.

Cut to the chase

What's your advisor doing with their own cash? Where have they chosen to invest their money? And what estate planning provisions do they have in place personally? As a potential client, you should be able to ask an advisor to 'open the books' in the same way that an advisor will ask you to disclose your personal financial situation.

Ask your advisor why they have chosen a particular strategy, and why you should or should not follow the same. If there is a disconnect, understand why.

If my advisor had not been particularly successful in building their own wealth, I would be very concerned. They do not need to be rich; but they should be able to demonstrate a clear commitment to long-term wealth accumulation. A get rich slow philosophy.

What's in the bad books?

If your advisor will not charge a flat fee for service, I would be walking away. There is a belief that it takes much more work to manage \$1 million than it takes to manage

\$100,000. This need not be the case. The amount of paperwork, follow-up, and regulatory compliance are similar – it is just taking place in a different ballpark. In my opinion, you should not pay more than 1.5 per cent in total for all your investment, administration, and advisor fees and charges.

Every advisor has a different investment philosophy. If a 'stock picking' approach is advocated, you need to be sure you are comfortable with the degree of risk involved, and how this might impact you over the long term. If passive investing – or 'buying the market' – is recommended, ask for an explanation of the risks and benefits over the medium to long term.

As well, don't be embarrassed to ask your advisor about their own personal and business insurances. What protections do they have in place for themselves and their family?

It really is not too much to ask.

You can ask your advisor to provide details of their full business insurance arrangements, including cyber protection insurance. This ensures your own wealth will be protected if your financial services organisation falls victim to a criminal cyberattack. I would not recommend dealing with a financial advisor who cannot provide both a certificate of insurance and a cyber protection policy which demonstrates the firm has seriously thought about, and acted to, mitigate this growing modern-day threat.

The rule of three, and thumb

Understand the strengths and weaknesses of your potential advisor. Request client testimonials – a list of three is not unreasonable – and ask if you are able to speak with these clients. Interview the referee as if you were interviewing a potential employee. If you are seeing the firm as a result of a recommendation, you should still feel free to ask to speak to others who have appointed them.

One strategy is to appoint an advisor who is around five years younger than you – which is not a bad principle if you know when that person plans to retire. Ask about their retirement plans. Remember, super is tax free from 60; so if your potential advisor is aged 59, they may harbour a plan to retire very soon. You may wish to know who will be left behind to help you if you intend to stay on until age 67. Are there competent younger people working with your advisor?

A mini 'inquisition'

It seems like an 'inquisition', but I promise it will not take 700 years. It is a lot easier than you might think.

First step, my advice is to call and book an initial appointment. Tell the financial advisor that you have prepared a list of questions (you can use this article as a guide) and you would like to put these to them, via email, prior to the first meeting. If you have an existing relationship, ask to do this a couple of weeks prior to your next annual review. You will be able to get a sense of how appropriate your potential, or existing, advisor is for you, from the response you receive.

If they do not lay the right cards on your table, that play properly into your financial position, or if they will not 'open the books', it could be time to move on.



Theo Marinis