Why hiring a fiduciary financial advisor matters

The difference between fee-based and fee-only advisors

How to look up a financial advisor's background

INVESTOR GUIDE

the top 10 questions to ask your next financial advisor

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integritas financial

THE TOP 10 QUESTIONS

1

Are you a fiduciary?

A fiduciary is required to work in the best interests of the client.

If you don't work with a fiduciary, you may be sold "suitable" investments that pay the advisor commissions. Because of this increased cost to you, these investments may end up resulting in a worse net result than similar options that don't pay out commissions. Also, "suitable" investments might simply fit a need, rather than be the best option for your situation.

A fiduciary can be found as a CFP® or as an RIA. An RIA is required to act in your best interests, or they may be heavily penalized by their state regulators or by the SEC. A CFP® professional could lose their certification if they don't adhere to that standard of care. These repercussions could ruin their career, so CFP® professionals ensure that their advice is what is best for you and your goals.

2

How do you make money?

You want an advisor who is fee-only. NOT FEE-BASED.

Fee-based is a term that makes you believe that the advisor is fee-only. Fee-only means that the advisor makes money by flat fee for tasks they perform for you, or they charge a percentage of assets they manage for you. When you work with a fee-only advisor, you have a clear understanding of how that individual earns his or her money.

If the advisor you are talking to is fee-based, there is a good chance he or she may sell you commissionable products, rather than offer you the best option for your situation.

3

Are your other clients similar to me?

There are so many advisors to choose from, and each has his or her own specialty. You want to work with an advisor who specializes in helping people like you. Some advisors specialize in helping people who work in specific industries, while others specialize in helping people in certain stages in life with specific financial planning needs, like estate planning, budgeting, or retirement planning. There are a lot of advisors who claim to be able to do it all, but in reality, that makes them a master of none. Find an advisor who specializes in helping people like you and will help you with your current and future needs. Don't go to a pediatrician for a heart problem.

What are your qualifications?

4

If you are going to pay a financial advisor to do any kind of work, you want them to know their stuff. You should work with an experienced advisor who has learned how to optimize financial outcomes for people like you and has learned the pitfalls to avoid. The advisor you work with should be personally invested in addressing your challenges.

On top of this, be sure they did their homework. Learn more about the advisor you are speaking with by checking out their professional credentials, their educational background, their work experience, and their disciplinary history on the Broker Check website and on the advisor's Form ADV Part 2 Brochure.

5

What is your investment philosophy?

When you give your money to a financial advisor to invest, you are deciding to use his or her vision of how investing should be. You need to believe in your advisor's strategy and stick to the plan during down markets. If you are investing for the long term, which you should be, stick with the philosophy of your advisor for at least 5 years. Investment success doesn't happen overnight.

Extra tip: If the advisor uses active mutual funds, you are giving your advisor money so he or she can give that money to someone else. That is three levels of opinion for your money. Plus, it will most likely be spread around several actively managed funds, which means that you may have a stadium full of people deciding how to invest your money. That's a lot of opinions, and most likely they won't agree with each other.

6

How will this relationship look?

You want to know if you can contact your advisor when you need them. Can you call them when you need advice? Is their advice limited to investments? You need to get an idea about how your relationship will look so you aren't surprised when you can only speak to your money manager once a year. You want a manager who will be proactive – someone who will call you to discuss any changes to your situation or to address turbulent markets. Remember your financial advisor works for you, not the other way around.

How will my assets be protected?

7

Make sure your assets are covered on all fronts: cybersecurity, use of a well-known custodian, insurance, data encryption, FDIC covered cash positions, etc. In today's world, everything lives online so you want to know that your information and assets are protected. You don't want the advisor to be custodian of the assets for many reasons, but the best one can be explained in a name: Bernie Madoff.

8

Can we meet remotely?

Flexibility and access are important. Make sure you can reach your advisor when you need to.

Do you manage taxes for the investments?

9

Beginning in 2011, the IRS started requiring brokerage firms to report the purchase price and date of investments so they can track how they should be taxed (such as long term or short-term capital gains). Using this to your advantage, you can minimize investment-related taxes or even lower your tax bill. Make sure your advisor has a system in place to track the tax lots of the investments so they can control the realized gains in your accounts.

10

How do you manage risk?

Risk is very subjective. One person's level of risk tolerance will be completely different from anyone else's. It is your advisor's job to understand you and your goals and to make sure your investments reflect your risk preferences. You can't simply complete a questionnaire and expect it to understand you as a real person and to tell you how you should view risk. This is why it is important that you understand the investment philosophy of the advisor you work with. If you are very risk-averse you should find an advisor who over-diversifies their portfolios, which may lead to a less-volatile investing experience. If you can handle a little more risk and investment volatility, you should work with an advisor who adds a few individual stock positions into your overall portfolio. By understanding your financial advisor's investment philosophy, you will likely find the right advisor for your risk appetite.

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BOOK YOUR COMPLIMENTARY CALL WITH RYAN KAYSEN, CFP®

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