The Savvy Financial Advice Survival Guide

10 CRUCIAL QUESTIONS TO ASK. RIGHT NOW. TODAY.

An RIA Worksheet for a Post-Great Recessionary World

Interviewing a prospective financial partner is hard work. There’s a bit of art, a bit of science. You want to make sure the professional or team you select to handle your family’s finances are knowledgeable, empathetic, and willing to address your concerns.

Every question is a good question because it’s important to you. At RIA, we want you to be prepared for the interview, so we created this worksheet of questions that will help you make an informed decision.

Take it with you. Make notes. Chemistry is crucial to a working relationship with a financial professional. If it feels wrong in your gut, most likely your intuition is correct. Remember: It’s your money. The decision is completely in your control.

Good luck on your search.

Are you a fiduciary or stock broker?

There’s a difference. A big difference.

A registered investment advisor or “RIA” is held to a fiduciary standard. According to www.thefiduciarystandard.org, a committee of investment professionals and fiduciary experts who formed in June 2009 as advocates for fiduciary-level advice:

“Registered representatives of broker-dealers are subject to a suitability standard under the Securities Exchange Act of 1934, while investment advisers are regulated as fiduciaries under the Investment Advisers Act of 1940.”

Fiduciaries are held to a high standard of ethics and care which affects all the advice they provide. It’s a much stricter standard. There should be no conflict of interest and if one exists, it requires clear disclosure.

The Committee for the Fiduciary Standard outlines 5 core principles of a fiduciary:

- Put the client’s best interests first;
- Act with prudence, that is, with the skill, care, diligence and good judgment of a professional;
- Do not mislead clients–provide conspicuous, full and fair disclosure of important facts;
- Avoid conflicts of interest;
- Fully disclose and fairly manage, in the client’s favor, unavoidable conflicts. “Suitability” guides a broker to recommend an investment that is appropriate for your situation, is not held to the same standard.

A broker is required to know your risk tolerance, tax bracket, and time frame for the money you seek to invest. All skeletal in nature. Yet legitimate. Well, it’s suitable.

The Fiduciary Standard is a high calling. It’s there to position the client front and center in the financial advice model, as it should be for every professional who assists consumers with their financial decisions.

What’s going on in the financial industry, especially the brokerage brethren right now? Overall confusion. The well-publicized Department of Labor’s Fiduciary Rule proposal is dead. The latest confusion front-and-center in financial industry news is how the SEC is seeking to define how the brokerage business should consider clients’ interests first. It’s so difficult. The SEC is expected to provide a watered-down fiduciary standard in 2019.

Don’t hold your breath.

We have no clue what the final SEC rule is going to be. In my albeit naïve opinion, until the industry guard dogs discourage endless sales quotas and helps retrain front-line representatives to focus on customer best interests over the fear of failure (and possible job loss), to meet senior management initiatives, we don’t expect much change to current operating procedures.
We have observed and been told by investors (including family members), that several brokerage organizations are ‘politely nudging’ or downright threatening (“you won’t be able to work with me if to don’t do this,”) clients to transfer their assets to accounts under a ‘Fiduciary Standard’ which generate fees for the firm and appear to include an immoderate allocation to proprietary products.

So, clients who weren’t paying ongoing fees previously are now doing so. They’re also getting sold out of investments they’ve held for years to be positioned into an asset allocation in a box. Financial big-box retailer compliance departments are going to make sure a Fiduciary or Best Interests Rule is primarily followed to protect the firms they serve. Financial retailers are going to make it their business to morph any rule into an incredibly profitable venture for their organizations.

I’m glad there’s attention. In some cases, there’s a firestorm around doing what’s highest and best for clients. Even the CFP Board is jumping on the bandwagon. Under a new rule and revised ethics standards that become effective on October 1, 2019, a Certified Financial Planner® mark holder who is employed by a brokerage firm must disclose and manage conflicts of interest and act in a client’s best interest. Listen, this is a big deal.

Many CFPs employed by brokerage firms use the marks to gain credibility with prospects and grease the wheels of the selling process. I mean, if a CFP recommends a product it must be in a client’s best interest, correct? Not necessarily.

Today, CFP Standards include what I perceive as an ‘out-clause’ which outlines expected loyalty to an employer. Ostensibly, the CFP marks aren’t attached to any kind of fiduciary responsibility to the client first unless the scope of the engagement is financial planning.

The revised CFP Board standard doesn’t appear to be going over well with the broker-dealer industry; we find their discourse encouraging. Don’t be surprised to see less Certified Financial Planners employed by brokerage firms over the next few years. Nor will obtaining the marks be paid for or encouraged by these organizations. It’s a proper and very bold move by the CFP Board and it makes me proud to maintain the certification.

Bottom line: Should it be so difficult to do what’s in the best interest of the client and still make a respectable living? Common sense portends that doing right by the client should lead to more clients and increased profits.

Currently, there are multiple bureaucratic hands taking shots at crystalizing or postponing fiduciary or “fiduciary-like” standard initiatives. On a positive note, at least the discussions continue.

Investors must be vocal about what they expect from their financial professionals. They must gain confidence to know what they want, what they expect to foster trust, write it out and share those expectations.

Again, the process begins with the quality of questions you ask.

It all begins with:

**Think fiduciary over suitability. Fiduciary? Yes/ No**

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**How much will I/we pay for your services?**

Simple question deserves a simple answer. Unfortunately, not so simple. People share with me their frustration as they’re unclear how their current financial professionals get paid or are compensated for selling investment products.

It’s especially perplexing for mutual fund investors sold multiple share classes and perpetually unclear of how charges are incurred. A clear comprehension of the class share alphabet (A, B, C), is as thick and jumbled as the inside of Campbell’s Soup can.

B &C share classes are popular selections on the product-push list. They represent the finest alchemy in financial marketing. As consumers are generally hesitant to pay up-front sales loads like in the case of A shares (even
though when taking into account all internal fees and expenses, they’re the most cost-effective choice for long-term investors,) B & C shares were created to mollify the behavioral waters. To avoid having a difficult conversation or facing reluctance about opening your wallet and shelling out 1-4% in front-end charges that reduce the principal amount invested, the path of least resistance is to offer share classes with internal fees, marketing charges and deferred sales charges. Either way you pay. With B & C shares generally, you pay more. However, big fees reduce returns, they’re stealth. Thus, they feel less painful to invest in (even though they’re not). A financial professional may be compensated hourly, by annual flat fee, a percentage based on assets under management, commissions or perhaps a combination. Regardless, to make an informed decision, you must understand how your adviser puts food on the table. If you can, get it in writing.

There’s no ‘right way’ to be compensated as long as it’s fair and reasonable for services rendered. You also want to understand what motivates your broker or adviser to recommend investment vehicles.

Clear explanation of compensation YES/NO

How do you incorporate my spouse, life partner and children when it comes to planning?
You don’t exist in a vacuum. An adviser should maintain a holistic approach to financial planning and that includes communicating with loved ones and teaching children how to be strong stewards of money. The meetings, communication must be ongoing. At least annually.

Satisfactory response based on my/our personal situation YES/NO

Why did you select financial services as a career?
This question should be used to gauge a perspective financial partner’s penchant for helping others and passion for his or her role as a mission, not a job. How do you know whether a professional sincerely cares about your financial situation and goals? You’ll know it, intuitively.

I/we understand the motivation behind this professional’s career choice YES/NO
What are your outside interests?
A successful life is about balance. This question gets to the weekend and evening person behind the financial professional you observe from behind a desk, charts, book, and computers. You may discover activities you have in common and develop rapport on a personal level, possibly for decades.
To gain a complete picture of the kind of person you’re entrusting with your investments is a crucial element of your interviewing process. By the way, it’s not prying. It’s curiosity. Ostensibly, you should like the individual you and your family may be working with, possibly for decades.
I/we like this person. YES/NO

Please tell me about your firm’s service standards.
You want to know how many times a year you’ll be meeting with your financial partner whether in person (preferably), over the phone or web meeting like Go-To-Meeting®. Is it quarterly? Every six months? How would you like to communicate as a client? What are your preferences? Will I be receiving calls and e-mails throughout the year about topics important to your financial situation like the market, economic conditions, financial planning, and fiscal changes that may affect us/me?
I/we feel comfortable with this professional's service standards YES/NO

What is your personal investment philosophy?
You seek to discover whether an individual is towing the employer’s line or does outside research and shares his or her personal opinion based on independent research and study. In other words, does your prospective partner have a passion for ongoing education and learning?
There is a clear personal philosophy communicated YES/NO
How do you manage for portfolio and investment risks?

Markets can’t be timed. That’s true. However, risk management is about controlling downside risk which can be devastating compared to possible gains. Your broker or adviser should have a strategy you believe in to guard against market storms. Whether it’s a conservative asset allocation right from the beginning, or a specific sell and re-entry discipline to minimize portfolio damage, a risk-management strategy is crucial.

Academics and influential financial service providers are on the band wagon when it comes to sell disciplines. Whether it’s Dalbar, the nation’s leading financial services market research firm, or MIT Professor of Finance Andrew Lo, there’s a growing body of work that shows how investors spend most of their investment life (20-30 years), making up for losses, playing catch up. Losses are inevitable. Significant losses must be avoided.

**There is a sell discipline I/we agree with YES/NO**

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How often do you review my accounts and investments?

With this question you’re attempting to gain understanding of a financial partner’s workload and number of families served. There’s no ‘right’ answer. It’s based on how comfortable you feel with the response. Monthly, quarterly schedules are generally acceptable. Weekly, even better. Now, that doesn’t mean changes will be made. The query is about engagement with and monitoring investments selected.

**I’m/we are comfortable with the response to this question YES/NO**

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How do I/we have access to you and your team?

A caring pro will make sure you have the ability to text, access to a cell phone number, phone contacts and e-mails of support staff and make you feel comfortable to reach out at any time. You should also expect a prompt response to voice mails – usually within 24 hours or less.

**I/we can get a hold of this individual or a team member easily YES/NO**

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Questions are an integral part of any relationship.

- You’re not being nosy.
- You’re seeking information to make an informed decision.
- About a topic close to your heart.
- Financial well-being.

No questions asked.