

Clear Questions with Clear Answers...

HOW TO KNOW IF YOUR FINANCIAL ADVISOR HAS YOUR BEST INTEREST IN MIND

By Keith McKenzie

How is it possible that sophisticated and well-educated people are taken advantage of in the financial world every day? The easy explanation is that most are not aware of it or are too busy to care. Why is this important? The easy answer is that it's costing you money. Asking your advisor **four** simple questions may provide enough insight for you to know if you are getting good advice and what you paid for.

1. Are you held to a fiduciary standard when providing advice and recommending investment products to me?

This question should have only one answer – YES. It means that your advisor is required to act in your best interest. If your advisor is not willing (or required) to do this, you must consider the possibility that his advice may be in his best interest but not necessarily yours. An important clue here can be found in how your advisor is licensed. There are two major licenses that individuals in the financial services industry can carry: **(1) the Series 7 license**, which allows an individual to sell products and receive commissions. This requires only that those products be "suitable" for the client (a very low standard); and **(2) the Series 65 or 66 license**, which allows an individual to give investment planning advice, receive a fee and provide a required fiduciary level of care. This can be confusing, as many people hold both, which allows them to provide investment planning and advice under the advisory license, then implement the investment plan under the Series 7 license by selling products that are "suitable" but may not be in your best interest.

2. Do you recommend or use any proprietary products when constructing an investment portfolio?

When using proprietary products, the motivation behind the recommendation should be held to a higher scrutiny. Limiting choice to a select group of proprietary products is rarely a good option and often creates a situation where there is a conflict of interest between the broker selling the product and the client.

How are you compensated?

3. Simple question but the answer may surprise you. The answer should be clear and concise. If you don't understand exactly how your advisor is being paid and by whom, you are not prepared to understand or interpret the advice that he provides. If your advisor makes more money when your asset allocation has more equities and fewer bonds, or if you use one product over another, you should know and understand this before implementing his investment recommendations.

4. How much will it really cost me to work with you?

Costs to investors can include some or all of the following: advisory fees, commissions, expense ratios, market spreads, transaction costs or charges, fund loads, 12b1 fees, reporting fees and incentive fees. Your advisor should be able to easily summarize the answer to this question and be willing to provide the information to you on their firm's letterhead. Understanding what services and products you are paying for is akin to knowing the headwind you must overcome to move forward. It is



not uncommon for individuals to think that they are paying 1% or less, but come to learn they are paying double that or more when all is said and done. If the fee "drag" is too high, it is easy to understand why it is difficult for a portfolio to grow – especially in a lower-yielding environment.

If you are not completely certain that you know the answers to these four questions, ASK. Demand complete transparency, separation of product and advice and a fiduciary relationship. Don't settle for salesmanship or accept vague answers when it comes to your financial well-being. What you don't know really can hurt you.

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