

8 Critical Questions to Ask a Financial Advisor **BEFORE** Hiring Them.

01

What is the type of company or advisor?

Why This is Important

Is the company a bank or trust company? A broker-dealer? A registered investment advisor? What government entity regulates the company's activities?

The type of company or advisor you choose to hire affects how strictly they are regulated, and by whom. Depending on the type of organization, they may be restricted in the types of products or securities they sell. This is limiting for independent investors, as buying and selling decisions are made from a biased standpoint on the advisor's part.

Other Considerations

- Go online and verify what they told you is true. Most registered investment advisors have a place on their website that discloses this info.
- Visit www.finra.com, a self-regulatory organization that regulates broker-dealers and administers investment advisor registrations. All advisors should be registered through this organization.

02

Is the person you're talking to an advisor or salesperson?

Why This is Important

Ask if the person is a portfolio manager, salesperson, or the advisor themselves. Many companies push their sales people to sell specific products or securities that benefit the company, not necessarily you as the client. Portfolio managers may be more invested in your best interests, but are not the ones making the actual investment decisions on your account. For a true partnership it is best to establish trust and rapport with the advisor themselves. This also helps the company and individual stay accountable for their results.

Other Considerations

- Does the individual have any professional degrees or certifications?
- If so, what are they?
- If the individual gives an alphabet soup of initials for professional certifications (CFP, CFA, etc), ask them to provide the full, official name of the professional certification.

03

Are there other affiliated or unaffiliated companies/third parties that provide any services under this agreement?

Why This is Important

You want to be absolutely sure you know who is handling your money and your accounts. Sometimes financial advisors and brokerages will sign clients and then bid out the work to other companies. While third parties can add a lot of benefit to helping manage your accounts, unknown third parties can cause issues with liability if things go wrong or if the third party makes a mistake.

You always want to know and sign off on companies involved in your financial well-being.

Other Considerations

- Many companies have additional info online about their affiliated partners, be sure to research the third parties themselves.
- Unaffiliated companies are a red flag, be sure to ask questions to get a clear picture of how they will be involved. Proceed with caution.
- It never hurts to contact the affiliate themselves.

04

How are you paid?

Why This is Important

Typically an investment advisor will receive compensation through management fees, hourly fees, flat/fixed fees for specific services, commissions, or a combination. You want to know exactly how the advisor is receiving compensation so you are not taken off guard after an agreement is signed.

In addition, commission-based fees imply a bias on the advisor's part to sell certain products for their personal financial gain, not necessarily your's.

Other Considerations

- How are fees/commissions collected?
- When/how often are they collected? Monthly? Quarterly? Annually?
- How are fees/commissions disclosed to me each billing period? This is important because not every company will proactively disclose this information without you asking for it.

05

What kind of investments do you recommend or include?

Why This is Important

Are the investments included in my portfolio publicly traded? Publicly traded investments have undergone vetting and are backed by public stock exchanges, like the New York or London Stock Exchange.

If investments are not publicly traded stocks, mutual funds or ETFs, or are organized or sponsored by the financial advisor, the investor is subject to a heightened risk of fraud compared to investors whose advisors use only publicly traded stocks, mutual funds or ETFs. Substantial due diligence is needed to evaluate the investments.

Other Considerations

- What are the fees associated with purchasing each type of investment?
- What are the fees associated with holding each type of investment? Sometimes certain investments require compensation over period of time. Be sure its clear what you're paying for.

06

Are there holding periods for my investments?

Why This is Important

Certain investments have a holding period, a period of time where you cannot stop the transaction without paying a large additional fee. Other investments can be liquidated without penalty at any time.

This is critical to know depending on the type of investment strategy you need, whether more long-term and stable or more short-term and volatile.

Other Considerations

- Are there early redemption fees?
- If there are early redemption fees, what are they/how much are they?

07

Will my money be held in its own account?

Why This is Important

Some brokerages and advisors will pool all of their clients' money into one or multiple large accounts. While this makes it easier and more flexible for them, it is rarely in your best interest.

If you have a shared account with other investors, everyone has a heightened risk of liability if anything were to happen to that account. If something were to go wrong it would affect everyone.

In general this is not a best-practice.

Other Considerations

- What is the full name of the custodian of my account/accounts? The custodian is where your money is kept. This is important to know.
- What are the custodian's fees?
- Are the custodian's fees charged to the advisor or broker? Or are they directly charged to me?

08

May I have a copy of the following forms?

Why This is Important

Ask for copies of these disclosure agreements and read them carefully:

Form ADV, Part II (or equivalent brochure) if the Financial Advisor is an investment advisor.

Privacy Policy—How will your information be stored securely, what steps are in place to ensure your financial and personal information is secure?

Written summary of any regulatory action against the Financial Advisor. This should also be in Form ADV Part II

Other Considerations

- A reputable advisor will have these forms up-to-date and on-hand. They will happily disclose this information to you. If they are hesitant or unwilling, this is a major red flag.
- Visit the websites: (1) www.finra.org and (2) www.nasaa.org. Here you can research registered advisors and broker dealers, search any enforcement actions against them, and more.