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# What You Need To Know About Your Financial Advisor

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by Steven Abernathy and Brian Luster

How many people know how to “screen” a financial adviser? And what is the screening process anyway—particularly when there are so many to choose from, and the pool is ever-growing? The [Bureau of Labor Statistics](#) projected that by 2022, the number of Personal Financial Advisers will increase by at least 22%, a growth rate much faster than average. They also reported the 2013 median income was \$75,320 annually for a “personal financial adviser” and \$71,720 per year for Securities, Commodities, and Financial Services Sales Agents. Given the wide variety of designations and salaries of financial advisers brings us to the original question—what must you know about your financial adviser?

Options about who to hire in certain aspects of life are straightforward. When hiring a personal trainer, are we inclined to work with the guy who has a great physique or the guy with the generous gut pouring over his elastic pants? If employing a security guard, wouldn't it be prudent to insure s/he doesn't have a criminal record? And isn't it wisest, if engaging the services of a math tutor, to seek out the A student not the C student? When so many service providers are held to a high, measurable standard, why are financial matters often discussed with trepidation? A lack of clarity and transparency will not help nor strengthen your portfolio. So what must investors know?

**Why is the adviser making a particular recommendation?** We advocate that investors listen critically and carefully a financial adviser's recommendations. If an investment is presented favorably, find out, are others in the firm invested in it? Has the adviser purchased the investment for his or her own portfolio? Also, is the adviser transparent about where his or her money is? Financial advisers who put their personal assets into investments clients never hear about may be telling. If the fund is good enough for the adviser, why isn't it good enough for the clients? A high net worth investor's money may open the doors of eligibility, however, if no person or group at the firm is participating in the recommended investments, we would want to know why.

**Do you know where the adviser's investments are?** Where, and how much, of the adviser's own money is invested? If s/he suggests a client should invest 50% of their net worth in a fund, yet, the adviser hasn't put in so much as a dime, why would this investment be deemed a "must have"? If the

response is something like “we have very different risk profiles” or “we are in different life stages”, further clarification is warranted. An intelligent investor will want to know about the financial professional’s holdings not for nosiness’ sake, but, to gain a better understanding of the adviser’s risk profile.

**Are recommendations for your portfolio based on investment suitability or fiduciary responsibility?** There is a difference between the [suitability standard](#) and the [fiduciary standard](#). Those bound to the latter are legally obligated to offer clients the recommendations in the clients’ best interests only—even if they don’t match the financial interests of the broker. If two products are both “suitable” it’s possible anyone not bound to the fiduciary standard will promote the product offerings paying the highest commissions with the highest fees.

**Will the adviser sign a fiduciary oath?** If a financial adviser works for you and only you, no conflict of interest should bar the signing of a [fiduciary oath](#). If any money manager working for you and your family does not sign a fiduciary oath, that person is not working for your interests 100% of the time. Dissolving the relationship may be considered. Here it’s vital to pay attention; does the person work for him/herself, or, for a firm? Are there financial obligations to be met for the firm? If so, be clear on what those are.

**Are you legally obligated to disclose all of the fees I will pay—including fees built into products I won’t see on my balance sheet?** Disclosures on purchasing forms are usually in small type buried several pages into an agreement. Know what you’re purchasing and how much you

are paying. For example, if, you purchase a wrap account and own a variety of mutual funds and other investments are “wrapped” together, the account may be subject to an annual percentage fee. Knowing precisely how fees are built into products can inform your purchasing decision.

**Will you always provide the best investment at the lowest fees for my family?** It’s a yes or no question every investor could ask and most do not! Commissions and fees are a key motivator for a commission sales rep, and, selling what’s best for the client’s bottom line may not be best for the broker’s—this is why clear, pointed questions are a must.

Answering these questions can help determine if a wealth manager is bringing expertise to the table—or is learning and profiting at the clients’ expense.

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