

Finding an adviser who will put you first

ROB CARRICK
GLOBE AND MAIL UPDATE
MAY 29, 2008 AT 6:00 AM EDT

Let's talk about the trust problem that some people have with their investment advisers.

It could be disappointing investment returns that get clients wondering about their advisers, or it could be unexplained fees, a condescending attitude, a lack of attention, a tendency to fall back on incomprehensible investing jargon and so on. All of these complaints have been mentioned many times by people contacting the Personal Finance column.

Want an adviser you can trust? Dan Richards, a consultant who works with the advisory industry, says it's all about finding someone who puts clients first.

If you asked them, all advisers would say they do this. After all, they have a fiduciary duty to act in the best interests of the client. But how do you find the advisers who follow through with a client-first attitude in the service they provide?

Mr. Richards has four tips for finding trustworthy advisers that you can apply when interviewing candidates to run your portfolio. The first has to do with an adviser's treatment of the issue of compensation, or payment for services. "If an adviser is comfortable having this conversation, that's a good thing," he said.

Watch out for advisers who try to dodge the issue or act evasive. "You tend not to have a clear conversation with them," Mr. Richards said.

Fees are a given when you deal with an adviser. They're paid either through a fee based on the assets in your account – maybe 1 to 2 per cent each year – or through investments recommended by the adviser. There can be commissions to buy securities and to own them on an ongoing basis, as with mutual funds.

Fees are nothing to be squeamish about for both advisers and clients if they represent payment for valuable services like portfolio building and financial planning. Unfortunately, some advisers are sellers of investments and nothing more. "There's an element of the business that is successful not because of the value they bring, but because they're great salespeople," Mr. Richards said.

A second tip for finding a client-friendly adviser is to look for good communication skills. The financial sector is a jargon factory and it's easy to lapse into a mode of conversing where at least a little bit of technical talk creeps in. Instead of fees, an adviser might talk about MERs (management expense ratios) or DSCs (deferred sales charges). Instead of stocks and bonds or guaranteed investment certificates, they talk about equities and fixed income. Instead of the risk of losing money, they talk about volatility.

Mr. Richards said it all comes down to whether an adviser talks to you in a language you can understand. "Are they putting it into plain English? It takes more effort to do that."

A third tip to consider is the extent to which an adviser asks questions about your personal situation. Mr. Richards noted that people must complete a know-your-client (KYC) form when they sign on with an adviser, but he said they're too simplistic to be of much use in sizing up a new customer's needs.

For example, one firm's KYC form ask clients to describe their risk tolerance in terms like "none," "very low," "low," "low medium" and so forth. A more personalized approach would be for an adviser to discuss your previous experience as an investor and ask about your reactions to the market ups and downs you've seen.

The stock market volatility that began last summer is a perfect example. A clients-first adviser would probably want to know how you reacted – did you put some money into the market, do nothing or sell some investments – to get a real-world indication of your risk tolerance.

A fourth tip suggested by Mr. Richards is to seek an adviser who makes time for you as a client. "From an adviser's perspective, time is a scarce resource," he explains. "So there's a tendency to say, okay, how quickly can I get past this client to the next one?"

Making time for clients doesn't just mean having a face-to-face meeting once a year. If you call your adviser on the phone or send an e-mail, will you get a prompt reply? Will it be your adviser or a close associate who gets back to you, or do they delegate these matters to flunkies while reserving their time for the hand-holding of rich clients?

The ideal adviser would seemingly be one you could trust implicitly, but Mr. Richards said he's uncomfortable with the idea of encouraging investors to seek this kind of an advisory relationship. He believes, sensibly, that no matter how good their advisers are, individual investors have to be at least a little involved in the running of their portfolios. "To be prudent," he said, "people have to take a certain level of responsibility."

Recommend this article? 17 votes

View the most recommended

SPONSORED LINKS

[Recruiting in the Finance Industry?](#)

Software for Recruiting, Applicant Tracking, Onboarding, Performance Management,...

[Free Online Demo](#)

[Want to Save on Auto Insurance?](#)

Compare Auto Insurance Quotes Online from multiple companies and save. Instantly...

[Choose-Insurance.com](#)

Autos



Times really are a-changin' at Cadillac

Travel



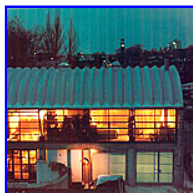
Flying with medical conditions

Business incubator



Nurturing the right staff to grow

Real Estate



Toronto's first laneway house

Technology



Wii Fit Diary:
Week One

© Copyright 2008 CTVglobemedia Publishing Inc. All Rights Reserved.

CTVglobemedia

globeandmail.com and The Globe and Mail are divisions of CTVglobemedia Publishing Inc., 444 Front St. W., Toronto, ON Canada M5V 2S9
Phillip Crawley, Publisher