

How to choose your financial advisor

It's been said that some people spend more time on choosing an automobile to purchase than they do on selecting a financial advisor. If that observation has a ring of truth to it, it may be because people are familiar with the daily driving experience and the ease of determining one's preferences. In contrast, financial management is a task that, for most people, involves decisions and considerations that they know little about. Similarly, they are ill equipped to assess the qualifications of those who seek to provide financial services.

We suggest that you ask yourself these five questions as you evaluate your choices.

1. Does the advisor offer more than “hot tips” and transaction services?

Successful financial management requires a disciplined, structured approach to investing, not impulsive purchase and sale decisions or market timing. In short, success requires planning.

There are a variety of stages to the investment process that we guide our clients through: assessing objectives and risk tolerance; researching choices; structuring an investment strategy; constructing the portfolio; adhering to your asset allocation; and monitoring your strategy over the long term. In this way, our clients can be more confident about their investment plans and, in turn, their financial future.

2. What are the qualifications of the advisor?

Look for someone with considerable experience, with a solid theoretical background as well as real-work experience in the area of investment management.

3. Does the advisor have access to a broad range of expertise?

Generally, a team approach will prove stronger than reliance on a single individual, no matter how talented that individual may be. Your advisor should be able to rely on specialists in equity and fixed-income analysis with access to proprietary research, quantitative analytical techniques and Wall Street research.

4. In what manner will the advisor be compensated?

Compensation for investment management advice has been a rapidly evolving area in recent years. Classically, stockbrokers are paid commissions based upon the number of trades executed for clients, which makes them transaction driven; the more they trade, the more they earn. However, some brokerage firms have in recent years offered alternatives to the usual brokerage account, in which flat fees may be substituted, to some extent, for commissions.

Financial planners may charge a fee for their advice, or they may earn commissions when the products that they recommend are purchased. Some planners earn both fees and commissions, sometimes from the same clients.

Banks and trust companies and investment counselors generally charge annual fees geared to the amount of assets under management. Larger accounts generally pay lower fees, on a percentage basis, than smaller accounts.

5. Will the advisor have only your interests at heart?

Generally, this is related to the issue of compensation. The transaction-driven advisor may be tempted to recommend churning the account; the commission-based advisor may recommend products with the highest commission, rather than those that best meet the client's need. That's why all observers of the investment scene recommend complete disclosure to the client of the compensation arrangement and the fees that the advisor is likely to earn from his or her advice.

When a flat annual fee is charged, in contrast, the client can be more confident that the advice is truly unbiased and objective. What's more, banks and trust companies are "fiduciaries," which means that under the law they must put their clients' interest ahead of their own. And state and federal bank regulators enforce this rule.

We offer a variety of fee-based investment management services. We'd be happy to tell you more—just call to arrange an appointment with one of our investment officers for a review of your financial objectives and strategies.

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Any developments occurring after January 1, 2008, are not reflected in this article.