



TEN QUESTIONS TO ASK YOUR FINANCIAL ADVISOR

Before You Invest a Dime with Them!

They are everywhere. Sharply dressed. Working for big firms with big names or small firms you've never heard of before. They are in your church, belong to your chamber of commerce, your country club. They're the leader in your son's cub or boy's scout troop or your daughter's brownie or girl's scout troop. They smile and exude confidence. They seem to be very knowledgeable. They seem to be trustworthy. But then again, so did Bernie Madoff. He was able to con not only the rich and famous, but other investment professionals, the SEC and many educated people, some of whom ran some of the biggest charities in the country! He even conned his friends . . .

Today, you simply cannot afford to be too careful. Big brand names don't mean they will take good care of your money. You'll find that *some* financial advisors with large, well-known brokerage firms as well as small local investment firms have been found guilty of fraud against the clients they were supposed to serve. Truth is, it's not usually the fault of the *firm*; it's the fault of the *financial advisor*.

Before you make a decision to work with *any* financial advisor, there are 10 important questions you need to ask him/her. Rather than the advisor interviewing you to see if he/she wants to bring you on as a new client, YOU need to interview him/her to see if he/she is the kind of person you want to hire to watch over your nest egg.

So, before you hand over the keys of your financial vault to a sharp looking and sounding financial wise guy, ask him/her these 10 questions, do some research on your own about him/her and then make an educated decision.

- 1. Have you ever been involved in any customer complaint, arbitration or dispute even if it were settled? Yes _____ No _____**

You deserve to know if the advisor you are talking to has ever been involved in a customer complaint. Frankly, it ought to raise a red flag if the answer to this question is yes. To be fair, while it ought to raise some questions in your mind, merely answering yes shouldn't be enough to cause you to dismiss an advisor or to conclude that you shouldn't work with him or her. There are some frivolous complaints that are made by consumers who think they can get a quick payday

for some perceived wrong. However, you certainly need to know what happened; what the advisor was accused of and what the disposition of the complaint was. If there were a monetary settlement made to the consumer, even if there were no admission of wrongdoing by the advisor, there may very well have been some culpability on the part of the advisor.

What if the advisor answers no to this question? Does this mean the advisor is one of the good guys? It might. However, you should probably dig a little deeper.

One of the best indicators of being a solid citizen and business person in the community is membership in the local chapter of the **Better Business Bureau**. Is the advisor a member? If so, what BBB "grade" has he or she been assigned? The BBB uses its own special criteria to assign a grade. A large part of the maximum possible grade is the number of years the member has been in business. An advisor with any "A" rating, even an "A-" may be fine. An "A-" may just mean the advisor has only been in business for a few years.

Member of the BBB: Yes: _____ No _____

Another organization that is much less well known to the general public is the **National Ethics Association (NEA)**. The NEA is a "for-profit" organization that financial advisors can voluntarily choose to join in order to have a comprehensive set of background checks run on themselves. These background checks range from civil and criminal legal histories: problems with regulatory agencies ranging from the SEC to FINRA (Financial Industry Regulatory Authority which oversees stockbrokers) to every state securities and insurance department to mortgage regulators. If financial advisors have ANY negative issues in their past they cannot be members of the NEA. If your advisor IS a NEA member, that's a very good start!

Member of the NEA: Yes: _____ No _____

2. **What licenses do you hold?** Series 6 ___ Series 7 ___ Series 65/66 ___
Insurance License ___ Other Licenses _____

The type of license(s) a financial advisor holds determines MANY things from how he/she is paid to his "bias" towards the products he recommends. Let's break these license types down briefly.

- **Series 6:** This is a "limited securities license" that allows an advisor to sell mutual funds and variable annuities. Series 6 advisors will mostly earn their living from the **commissions** they generate by recommending these two products. Typically these commissions come directly out of your investment; however this isn't always the case.

- **Series 7:** This is a full securities license (a stockbroker) that allows the advisor to recommend virtually any security ranging from mutual funds and variable annuities to individual stocks, bonds, real estate investment trusts, options, commodities etc. Like Series 6 advisors, Series 7 advisors, for the most part, earn their living from the **commissions** generated based on product recommendations. Also like Series 6 advisors, these commissions typically come directly out of your investment, though again, this isn't always the case.
- **Series 65/66:** These advisors, unless they also hold a Series 6 or 7, generally do not earn commissions based on their recommendations. These advisors are known as "Registered Investment Advisors" (or "Investment Advisory Representatives") and, in general, they earn **fees** based on the value of your account every year.
- **Insurance License:** These advisors, unless they also hold one of the above licenses, can only make recommendations for insurance products such as life insurance, fixed annuities or long-term care insurance. They earn a **commission** when you buy a product they recommended to you. Typically these commissions do not come out of your investment but rather are paid out of the insurance company's pockets.

3. What professional designation(s) do you possess?

CFP:_____ CLU:_____ ChFC:_____ CFA:_____ Other:_____

Entry into the financial services industry is incredibly easy. Anyone who studies for the exam can pass the test and get a license, be it as a stockbroker or insurance agent.

So do you know if the financial advisor you're considering working with is truly committed to his/her clients and practice for the long run?

One good indication is if the advisor has taken the time to earn a professional designation. There are literally hundreds of different financial professional designations available. Some are earned and bestowed by highly credible organizations such as "The American College" and other higher education organizations. Some are granted by lesser, for profit companies, and can be earned in as little as a weekend! In fact, there are so many financial professional designations that both regulators and companies alike have compiled a list of designations that they recognize.

However, the two designations most identified with comprehensive financial planning are the CFP and ChFC. Both CFP (Certified Financial Planner®) and ChFC (Chartered Financial Consultant®) are comprehensive programs designed to teach financial advisors how to do comprehensive financial planning. If your advisor doesn't hold one of these professional designations, does it mean he or she isn't professional and competent? No. There could be many reasons why he/she chose not to pursue them. You should ask him/her, "why not?"

4. How long have you worked in the financial industry and what did you do before this? _____

A friend of mine related a story to me not long ago that had me shaking my head in disbelief. My friend had joined a networking group and one of the other members was the local representative of a financial company known for its many local branches staffed by an "advisor" who goes door to door introducing himself to local residents and businesses. This particular rep frequently asked my friend for advice on financial matters and products. One day the rep confided that prior to joining the firm, he sold parts for a bus company and was a bus mechanic for almost 20 years. His only training was what his firm provided. Since his firm sold mostly mutual funds, HE sold mostly mutual funds, and for all intent and purposes, blindly parroted to his clients whatever his firm told him to say. Needless to say, there's no substitute for experience and since it is said experience is the best teacher, you may want to know early on if YOUR advisor has enough experience from working with prior clients-and not learning the business with your money! Forewarned is forearmed! If a well dressed advisor comes knocking on YOUR door, you may want to think twice, or at least ask about his current and previous experience.

5. How many clients do you currently have? _____

Who will I be working with? _____

Depending on the size of the firm, there's a practical limit to the number of clients an advisor can successfully serve. Smart advisors have more than enough staff to whom he (or she) delegates most tasks except those dealing with meeting with you and making recommendations. If your advisor has more than about 200 clients, you better see at least 2-3 support staff to help out. On the other hand, if the advisor has less than 40-50 clients, you have to ask why!? If the advisor has recently opened his office and is in the process of building his practice, this might be fine. If that IS the case, ask why he/she just opened the new office, how long he/she was in business before starting this practice and why he/she left the previous position.

6. How do you get paid? Salary only ____ Fees only ____ Commissions only ____ Fees & Commissions ____

Planners can be paid in several ways:

- 1) A salary paid by the company for which the planner works.*
- 2) Fees based on an hourly rate, a flat rate, or on a percentage of your assets.*
- 3) Commissions paid by a third party from the products sold to you. Commissions are usually a percentage of the amount you invest in a product.*

- 4) *A combination of fees and commissions whereby fees are charged for the amount of work done to develop financial planning recommendations and commissions are received from any products sold to you.*

The way an advisor gets paid usually drives his or her "bias." You'll be hard pressed to get an advisor to admit he has a bias, but if you were able to look at his tax return you could quickly figure it out!

- ***Stockbrokers** are typically biased towards recommending stocks and mutual funds. Why? That's how they earn the most money. Most large investment firms push their advisors to sell the things where THE FIRM makes the most money. You may have read about some of the lawsuits against a few of the major investment firms in the last 5 to 6 years. Most of them receive fees and bonuses from certain mutual fund companies in return for pushing their advisors to sell the funds from those mutual fund companies. (Source: Lies About Money, Rick Edelman)*
- ***Insurance-only advisors** are usually biased towards life insurance and fixed annuities because that's the ONLY way they can get paid (unless they hold other licenses).*
- ***Fee-only advisors** are frequently biased AGAINST anything that pays a commission!*

Which one is best? There is no such thing. What matters most is the integrity (and competence) of the advisor. Frankly, an advisor who is licensed to offer any type of investment may be best able to serve your needs since he or she can choose from the entire spectrum of investment alternatives.

7. **Can you describe your typical client?** _____

Listen carefully after you ask this question. What you want to look for is an answer that is similar to your own situation. If you're about to retire, you want to hear something about working with recent retirees. If you're still working, you want to hear that he or she works with other employees at your company or companies like yours. You should also ask about the average account size. If your account is substantially smaller than the typical account, you might find that you don't get the level of service that you desire.

8. **How often and how can I expect to hear from you?**

Weekly ___ Monthly ___ Quarterly ___ Semi-annually ___ Yearly ___

By phone ___ Email ___ Newsletter ___ Personal meetings ___

The biggest complaint investors who use a financial advisor have today is they don't hear from them often enough or when they do hear from the advisor, it's only to try to sell them something else. Since you're now aware of this general lack of communication, find out in advance what to expect from the advisor. Top advisors often send monthly newsletters-sometimes weekly emails-call at least once a quarter or meet with clients 2-4 times per year in person. The best advisors call and keep in touch with their clients even more often than this. Ask your potential advisor his or her minimum commitment to keeping in touch with you will be and ask to have this in writing. That way you both know what to expect and will be on the same page.

9. What standard are your financial recommendations held to?

Fiduciary Standard ___ Suitability Standard ___

There's a firestorm of controversy in the financial industry now between advisors who are legally held to a fiduciary standard and those who are not. What's the difference?

- **Fiduciary standard:** *This holds the advisor to give ONLY the same advice he would give himself in the same circumstances. It is the highest legal standard today. Simply put, the advisor's recommendations must be strictly in the customer's best interest!*
- **Suitability standard:** *This holds the advisor to giving advice that can be argued to be suitable. It is a much lower legal standard. In laymen's terms – the product you're buying may be suitable, but also it may NOT be the best option available to you.*

These two standards are also enforced by two completely different regulatory bodies. The fiduciary standard ONLY applies to investment advisors who hold a Series 65/66. The Securities and Exchange Commission (SEC) sets and regulates these standards. The suitability standard is enforced by either a state regulator (Department of Insurance or Securities) or by a securities "self-regulatory" organization. There are several self regulatory bodies, but the one the news covers mostly is FINRA (Financial Industry Regulatory Authority, Inc.). Again, advisors held to a "fiduciary standard" are always held to a higher standard when making financial recommendations.

10. Who will take care of me if something happens to you? Do you have a succession plan in place? Yes: _____ No: _____

The last thing you want is to be working with an advisor and enjoying the relationship and results and then have something unexpected happen to the advisor and have to start over again working with someone else. So it's important to find out up-front if the advisor has a plan in place to replace himself if he's no longer able to serve you. If he dies unexpectedly, does he have

a protégé or replacement? If he becomes disabled, is there someone to step up who knows what your financial goals and desires are? While not something that happens often, a good advisor will have already thought through this potential occurrence and be able to answer your question intelligently. If he or she starts mumbling or seems taken by surprise, you might want to find an advisor who can assure you of future continuity if the unexpected happens to him/her.

Are these the only questions you could ask an advisor? Hardly. But they are important. You should also consider asking your friends, family and acquaintances if they have had any experience with this advisor. You'll probably learn more from talking to current or former clients than from all the questions above combined. Of course, you *could* ask the advisor for client references but that's, basically, a waste of time. Ask yourself this: If someone asked *you* for references, would you ever give out a name of someone who you thought would sing anything but your praises? Probably not!

In Conclusion:

So now is the time to pick up this questionnaire, grab a pen and get going! In the end, you're the only one who can decide whether to work with a financial advisor or not. *Trust your own instincts after you gather the responses to these 10 important questions.* That small voice inside never lies and won't ever steer you wrong. Good luck selecting an advisor you can live with for the rest of your life!

To aid you in your investigation, here are two organizations with their contact information and websites to help you determine if the person who wants YOUR business, truly deserves it.

- FINRA – Financial Industry Regulatory Authority, Inc.
• (301) 590-6500
www.finra.org

- NASAA – North American Securities Administrators Association
(202) 737-0900
www.nasaa.org

- You can also contact your state's Department of Insurance or Department of Securities, as well as your local Better Business Bureau.

For more information regarding this topic or any other financial product or area of interest, email us at Info@ChecksandBalances.TV.

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2. What licenses do you hold?
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4. How long have you worked in the financial industry and what did you do before this?
5. How many clients do you currently have?
6. How do you get paid?
7. Can you describe your typical client?
8. How often and how can I expect to hear from you?
9. What standard are your financial recommendations held to?
10. Who will take care of me if something happens to you? Do you have a succession plan in place?

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