

How to Choose an Investment Advisor

Finding a reliable source for investment advice has always been a challenge. It's especially difficult in today's investment environment.

There's no shortage of places to turn for advice. The shelves at the bookstores are filled with "experts" offering their perspectives on how and where to invest. The financial pages of the newspapers and magazines are crowded with articles and advertising hype. Not to mention the family members and friends with their own particular brand of wisdom.

Where should you turn for professional, trustworthy guidance? The choice to put part of your financial future in someone else's hands should not be made hastily or without gathering some crucial information. Here are several suggestions to help you in your quest to find the investment advisor that's right for you.

Interview Extensively

Parents who hire a nanny for the children talk to many applicants and are scrupulous about checking references. You should be no less careful when entrusting your money to a stranger.

You should expect that the investment advisor that you choose will undergo a thorough study of your financial picture, your tax situation and your long-term goals. Develop a custom-tailored investment strategy based upon these factors. Select the investments to implement that strategy. Monitor your holdings, making changes or new recommendations whenever new developments appear to make changes desirable.

Look for Depth

You will want to look for someone with considerable experience, with a solid theoretical background as well as real-world practice in investment management. Your advisor should be able to draw upon a wide variety of investment choices, not just a family of mutual funds.

You should feel comfortable talking to your advisor. Make sure that he or she *listens* to you. A successful investment management relationship is based upon clear and consistent communication.

Test the advisor with a few questions. For instance, ask the advisor about his or her approach to investing. Is that approach plainly expressed and clearly articulated? Does that philosophy match your own?

Understand the Compensation Structure

Having a firm grasp on how your investment advisor is compensated may well be the single most important issue for you to understand. Stockbrokers, for instance, are typically paid commissions based upon the number of trades executed for clients. So brokers are *transaction* driven; the greater the number of trades that they make, the greater their compensation.

Brokerage firms also may offer wrap accounts—which combine professional money management, securities trading and periodic performance reports, all wrapped up in a package for which the investor pays a single annual fee, in place of per transaction fees. Fees are based upon the assets in the account and can vary widely based upon the broker and the size of the account.

Financial planners have sprung up as a source of investment advice in recent years. Their recommendations may carry a fee, or more likely, they earn commissions when the products that they recommend are purchased. Some financial planners earn fees both ways.

Institutions such as ours generally charge annual fees for investment services, and the fees are based upon the amount of assets under management. A graduated fee schedule is normally employed, which means that larger accounts pay lower fees, on a percentage basis, than smaller accounts. Similarly, investment counselors or advisory firms impose a percentage fee, based upon the amount and type of assets being managed.

Additional Pointers

Some brokers and commission-based financial planners, may have an incentive to encourage frequent investment trades in order to increase their compensation. With a fee-based manager, compensation rises and falls along with the value of your portfolio. The advisor can prosper only if you do.

Look for someone who offers *personalized* service. Wrap accounts, for example, generally, require an investor to review an assortment of model portfolios created by different money managers and to choose the one that's closest to his or her needs. An investment advisor should be available to review your needs and preferences in detail, then tailor our investment selections accordingly. As your situation changes, appropriate adjustments to your portfolio can be made.

Consider, too, what the advisor has to offer in terms of experience, quick access to research and technological support. It's a combination unlikely to be available at small brokerage houses or through financial planners.

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