

***TEN QUESTIONS YOUR FINANCIAL ADVISOR
HOPES YOU NEVER ASK***

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In this booklet, I address ten questions that every investor should ask their financial advisor. For each question, I provide background information concerning why each question topic is of vital importance when choosing a financial advisor or evaluation one's current advisor. Investors should not consider a weak or negative response to any one question as reason-enough to avoid conducting business with a specific advisor. Rather, one should take the responses from all ten questions into account, and evaluate the advisor based on one's overall impression of the advisor based on the totality of his or her responses.

I have placed the ten questions in order of importance, with the most important at the top. This is my personal opinion of the degree of importance of each, as well as the importance of the list as a whole. I would strongly advise investors to ask as many questions of their advisors as they feel necessary to make a valued and informed decision. Any advisor who fails to provide full and complete answers should be considered suspect. While there are many reasons to choose an advisor, asking an advisor these ten questions is an important first step in the process.

This process should not only help you find the right advisor, but should help you get to know the advisor better. One of the most important aspects of one's relationship with their advisor is trust. The better you know your advisor, and the better they know you, the easier it will be to develop trust. Though performance is always very important, I feel it is more important to have a lasting, productive, and trusting relationship with your advisor.

There is an old saying, we have all heard and used, which states: "You get what you pay for". Unfortunately, in the financial services industry, you don't always get what you pay for. But, I will tell you from personal experience, that if you don't pay, you will definitely not get value. The sad truth today is that Americans have been become so accustomed to focusing on getting a "good deal" that they lose sight of what they are trying to accomplish in the long-run, and instead, look solely or mostly at what they are paying.

I believe that if investors truly understood their needs, and understood which questions to ask to identify the right advisor that has the ability to assist the investor in achieving their long-term financial goals, the investor would recognize the value gained by paying the fees charged by the advisor, as long as that fee is reasonable. The investor's focus should not be on finding the lowest fee, but rather should be on finding the most qualified advisor based on the investor's unique needs, with a fee structure that is reasonable, given those needs and the services provided.

Please note that throughout this booklet I use 'advisor' to mean financial advisors, investment managers, stockbrokers, and the like. I hope you will find this booklet helpful in your quest to find a qualified and effective financial advisor.

1. How many years of experience do you have?

To me, there is nothing as important as direct investment experience for a financial advisor. No matter how many books one reads, or how many degrees one may have, there is absolutely no substitute for day-to-day financial market experience. Education is great, in fact it will be addressed below, but education provides the financial advisor with the theoretical basis for investing only. The practical application of that theory can only be learned through direct participation in the markets.

The type of experience is also critical. For example, if you are looking for a fixed income manager, all of the equity market experience in the world will not provide the proper foundation for an advisor investing fixed income assets. The experience must be directly related to the type of investing you, as an investor, need. Ask specific questions about the financial advisor's experience—where has he or she worked; for how long; what type of investing did they do there (be specific); how much money were they responsible for investing; what were the average trade sizes for investments that they were personally responsible for; did they work on a team, or did they have direct, personal, sole responsibility. These are the kinds of direct and specific questions one should ask.

With all of the new investment vehicles available today, such as hedge funds, venture capital funds, private equity funds, and the like, the advisor's experience with these relatively new investment vehicles is of utmost importance, if the investor is interested in them. If an advisor has never run a certain investment strategy before, even if that advisor has done well in other types of investing, one should consider investing with the advisor to be more risky. This is not to say that the investment should automatically be avoided, but rather one should understand that the investment advisor has no, or only a short, track record in this specific investment vehicle. Ask follow-up questions so that you fully understand what they are doing and why they are doing it, *before* you invest.

If your advisor is acting in a consultative role—advising you on outside money managers through a multi-manager asset allocation approach—you should understand not only the experience of the advisor in providing consulting services, but also the individual experience of the money managers chosen through the asset allocation process. The consultant can provide background information on each money manager, including a host of information that both you and the consultant should review and understand.

Normally, money managers chosen through asset allocation plans use a team approach, so it is important to understand the dynamics of the team members including the hierarchy of decision-making within the team. Again, the advisor's direct experience in the consulting process is the important experience to you. Even if the advisor has been a stockbroker or investment professional in some capacity for

many years, he or she needs to have direct consulting experience as well. Credentials are critical in the consulting area as well, and the CIMA designation is the top credential to look for when considering a consultant.

In my personal experience, there is a substantial difference within the industry, depending on the firm at which an advisor has held employment. Banks and trust companies typically do not provide the same level of direct market experience as brokerages and investment banks. Banks and trust companies typically have model portfolios that are designed by a centralized team within the firm, which each advisor is required to own for their clients. Because of this restriction, advisors at these firms are not required to pay much attention to the day-to-day activity in the financial markets, and therefore rarely do. These large banks and trust companies want uniformity of investment approach because it is easier to manage and it reduces the risk to the firm. At best, advisors at these firms have very limited flexibility within strict guidelines set by management, as to divergences from the model portfolio.

This is because, if every advisor owns the same positions for all clients of the firm, even if they underperform, the firm can claim that every client owned the same positions, and further that the positions held in each account were purchased based on their model portfolio. This protects the firm to a large extent from client lawsuits, as compared to a situation where the individual advisors, were they to be allowed to invest client assets on their own, could be blamed for their independent actions. This is why, historically, banks and trust companies have had dismal performance.

As you can imagine, buying the same portfolio for every client is not the most beneficial arrangement if you are the client. The model portfolio approach can be especially unfortunate for a new client of the bank or trust company in times where the overall market may be at a relatively high level when the initial investment is made. Typically, the advisor will buy the model portfolio for a new client within a few days or at most a few weeks of the initial deposit, with little, or no, regard for the then-current prices of the positions within the model. Additionally, if the new client is not depositing cash, but instead is transferring existing stock positions into the new account, many, if not all, of the existing positions will be liquidated so that the model portfolio can be purchased, with no regard for tax liability. While I am writing from personal experience, each firm is unique, and investors should understand exactly how a potential advisor will be investing their money *prior* to agreeing to the investment plan.

To summarize, the important point here is to ask questions. Ask open-ended questions about the advisors experience and allow them to describe what exactly they have done throughout their career. The more you know the better. Do not be afraid that you may insult the advisor by asking pointed questions. The Advisor should be more than happy to provide you with all the information you require, and many will have a written biography they can provide to you. If this is the case, review the biography and write-down any questions that you have about the experience listed.

Take note of any time-gaps and ask why they appear. If the biography contains short bullet-points, ask the advisor to elaborate. Again, try to ask open-ended questions, which will require the advisor to tell you a more comprehensive story about their background.

Take notes. I find that writing things down helps to organize and clarify your thoughts, and will help you to ask more specific and valuable follow-up questions. You can also use more general questions or statements such as: So Craig, tell me about yourself. Most of us in the financial services business are type-A personalities, so we like to hear ourselves talk anyways. If you use a conversational approach, it will seem less like an interrogation and more like a friendly conversation. If the advisor wants to do business with you, they will be more than happy to speak with you and answer your questions.

An Advisor's age is also important, because it relates somewhat to experience and competency. However, just because the advisor is old, or older, does not mean they are automatically better than a younger candidate. Some may have only recently changed careers and may therefore have little or no direct experience in the financial markets. Also, older advisors may be winding their businesses down, preparing to retire and therefore may not be very motivated to service client relationships or to pay attention to the markets. The investor should consider the age of the advisor in the context of their specific needs, and also the answers provided by the advisor to the experience, credentials, and other questions.

An older candidate might have only recently started a career in the financial markets, but they may also bring experience from another industry, which is complementary to investing, especially if they plan to specialize in investment vehicles related to their previous experience. As always, ask lots of questions. Ask open-ended follow-up questions to get the advisor to talk openly about their background. Most of the time, the advisor will offer an explanation to any perceived deficiencies in their background, because they want your business. So if you ask, they will usually tell you something that will help you make your decision.

2. Which credentials do you hold?

I placed this question second because, in my opinion, today's financial markets are far too complex for anyone who does not have quality credentials specific to the investment industry. While there are a broad variety of credentials an advisor can acquire, here are the most important (again, in my opinion):

CFA: The CFA, or Chartered Financial Analyst designation, is by far the most important credential for an advisor to hold. This credential requires the candidate to pass three different tests given only at specific times each year, as well as to meet very

stringent ethical standards before it is awarded. The three tests are by far the hardest I have come across, and I have taken many tests throughout my career. The CFA Institute (www.cfainstitute.org) sponsors the CFA, and membership in the CFA Institute is required for Charterholders. Annual ethics and continuing education hours are also required to maintain the CFA designation. The three tests cover a comprehensive body of theoretical research and investment valuation techniques that are the foundation of proper investment management.

CFP: The CFP, or Certified Financial Planner, is probably the best-known of all credentials in the financial services industry. It is sponsored by the Certified Financial Planners Board of Standards (www.cfp.net), and requires an educational component that can be self-study or can be taken as classes at universities, etc, and a testing component, which is a ten-hour test split over three testing sessions. The CFP also has a significant ethical component to the classes and the test, and requires ongoing continuing education, also including ethics requirements. An investment professional holding the CFP has learned all aspects of proper financial planning, retirement planning, estate planning and tax planning as it relates to financial and investment matters. A bachelor's degree is a prerequisite to obtaining the CFP.

CIMA: The Certified Investment Management Analyst is a professional who provides objective investment advice and guidance for both individuals and institutions. This professional integrates a complex body of investment knowledge and applies it systematically and ethically to specific client needs. The CIMA advisor applies state-of-the-art investment theory to assist clients in making prudent investment choices.

The CIMA designation belongs to an elite few in the investment profession. It represents the highest level of credibility, integrity, and most importantly, knowledge. Clients seek consultants who reflect the highest level of professionalism combined with financial expertise—all of which the CIMA designation indicates.

To obtain the CIMA designation, applicants must attend a week-long course, usually offered through The Wharton School of Business, and then take a demanding test covering a broad range of ethics, consulting, investment management, and performance measurement information. Continuing education, including ethics training is also required to maintain the CIMA.

CPWA: The Chartered Private Wealth AdvisorSM (CPWASM) program is an advanced designation created specifically for financial advisors and consultants who work with high-net-worth clients on the life cycle of wealth: accumulation, preservation and distribution. Candidates who attain this designation gain superior expertise in advanced wealth management content, strategies and applied concepts.

The Chartered Private Wealth Advisor designation is offered in partnership with The University of Chicago Graduate School of Business, (named by BusinessWeek magazine as the number one business school in the U.S).

As the premier designation in this arena, the CPWA program offers a challenging educational program focused on advanced wealth management topics, including the following: asset protection, executive compensation plans, stock options, tax-efficient portfolios, charitable planning, tax planning and advanced estate and gift planning.

CPA: The CPA is not an investment designation per se, but it the most recognized and well-respected credential in the accounting field. Many of the concepts and methodologies used in the accounting world are also used to evaluate investments. An advisor with a CPA would certainly have a decided edge over any advisor without credentials, and should be able to apply the valuable knowledge learned throughout the CPA program to the investment world. To obtain the CPA, applicants must pass the Uniform Certified Public Account Examination and meet additional educational requirements.

CLU: The Chartered Life Underwriter is a designation granted by the American College in Bryn Mawr, Pennsylvania to individuals who have completed training in life insurance and personal insurance planning. To obtain the designation, individuals have to complete advanced courses and exams in several topics including insurance, investments, taxation, employee benefits, estate planning, accounting, management and economics.

CTA: The Certified Technical Analyst program has been designed to recognize the unique qualifications and expertise of those professionals engaged in technical analysis. The Applicant must hold a bachelors degree, in any area, from an accredited college or university. Degrees from accredited foreign institutions are acceptable. The educational credentials must qualify in order to be certified. Candidates with a four-year degree must also have at least two years of direct financial markets experience. Those with only an Associate's degree must also have at least four years of direct financial markets experience.

While there are many other designations, the ones listed above are the most important and well-recognized. As mentioned above, when evaluating an advisor, investors should weigh all information about the advisor before making a final decision. But, in general, the more credentials the advisor has, the more confidence the investor can have in the advisor's ability to provide valuable advice. Ideally, the advisor's credentials should align with the specific needs of the investor.

3. What is your educational background?

Education provides the foundation and theoretical basis for an advisor, while direct financial markets experience teaches the advisor the practical application of the theoretical foundation. Specific investment-related education, credentials, and experience, in combination, are necessary for an advisor to have the background to provide proper investment direction to investors. There are thousands of colleges, and universities out there, many of which are of high quality; some that are of poor quality.

There are also hundreds of degree programs within the college and university system, and investors should obtain information from the advisor as to the school attended, the type of degree program completed, and even the course work required for the degree. It is possible to receive a business degree in general disciplines, such as marketing, which would not provide the advisor with much, if any, direct investment education. The key point here is that having a degree is not enough, and investors should probe further to identify exactly what the advisor's educational background is, before hiring them.

While there are many advisors out there that did not complete a college degree, I would say that in most cases those advisors should be avoided. A degree is typically required for credentials, and most firms today will not allow employees to take their broker's or advisor's licensing tests unless they have a four-year degree. With that said, some squeeze through without having a degree, and it is therefore important to ask.

Advanced education, including Master's and Doctorate degrees are a plus, and many advisors have one or more advanced degrees in addition to credentials. In general, the more the better. Most credentials also require continuing education, which keeps the advisor up to date on new developments in financial instruments, and also requires ongoing ethics training. Additional education can only help the advisor provide the investor with a better investment experience overall. While education, credentials, and experience will not guarantee top performance or even ethical behavior, it is a good place to start, in the process of choosing an advisor.

4. How much money do you manage?

This is a tricky question because advisors have many different approaches to the business. Some are trying to build very large books of business, which could make the investor feel more secure, but could result in less personal attention. On the opposite end of the scale, an advisor with a very small book might have poor performance or may be new to the business, although the flip side is that they will typically have more time for each client. Also be aware of the possibility that the advisor is working

in a team environment, which would indicate that the book of business, even if large, is not his or hers solely, but may be shared among several advisors.

Also, depending on the firm the advisor works for, the size of the book can vary dramatically. For example, bank trust departments will typically have large asset bases, which the advisor is hired to manage. While the advisor may have personal responsibility for the book, the advisor is not usually responsible for building that book, and in many cases does not have all that much autonomy to make investment decisions. Rather, the bank will have a model portfolio structure, as mentioned above, directed by a committee within the bank, leaving the advisor in more of an administrative position instead of an advisor advocating for each investor independently, and based on each investor's unique needs, etc. (More on this later.)

If, as an investor, you are looking at the firm and less at the individual advisor, meaning that you want a more generic investment approach and like the safety and stability of a large bank or brokerage firm, then you would want to find an advisor with a larger book of business. Bank trust departments may have anywhere from \$100 million to over \$1 billion in client assets under management, per advisor. If you are looking for a more personalized approach and more personal attention, an advisor with a smaller business from a smaller firm, or an independent advisor with his or her own firm, might be a better choice. Like many things in life, there are trade-offs in choosing an advisor.

One common misperception held by investors is that, if an advisor works for a small firm, or is an independent advisor with his or her own firm; somehow it is riskier to invest with that advisor. While this might be the case, and the investor should certainly ask direct questions about this issue, oftentimes, the smaller firm uses a much larger firm to custody assets. What this means in practical terms for the investor is that their assets are actually held at a large firm, often with substantial insurance coverage in the event that the large custody firm experiences financial problems.

In the case of my firm, I use Fidelity Investments, which custodies something like \$2 trillion in client assets. When a client establishes a relationship with my firm, they actually open an account with Fidelity Investments, and are provided all of the same protections as any other Fidelity client. I do not hold any assets within my firm. The client signs a contract with my firm for portfolio management services, but again, they also open an account with Fidelity, and all of their assets that I manage are held at Fidelity.

I believe if investors better understood this common business practice within the industry, the investors would have a much different attitude towards smaller firms. This is an important issue, and I advise you to ask specific questions about how a candidate custodies assets. But, investors should understand the key point that just because a firm is small, does not mean it is risky. On the contrary, the investor's

assets may actually be safer with a smaller firm, which uses a large custody firm, than with a larger firm that holds its own assets in house.

5. Do you have ownership in your firm?

I strongly believe that individuals who own their own businesses are going to offer better service, more attention, more customization, and generally a better overall experience, compared with an advisor at a large firm, who has no ownership. Business owners have more at stake than their counterparts at large firms, since it's their name on the door and their personal reputation on the line. While there are many advisors at large firms that provide great service, in general, I feel that independent specialists are a better option. Those of us who have hung our own shingle have typically already worked for large firms, and therefore bring the experience of working for a large firm along with the drive and personal responsibility of a business owner. This represents the best of both worlds for the client, in my opinion.

6. Do you charge commissions or fees?

This issue is not as important as it once was, simply because many of the transaction-only advisors are no longer in business. Many advisors, especially those at traditional brokerage firms, still charge commissions on individual transactions. Some may offer both commissions and fee-based accounts. Sometimes paying a commission is a more appropriate option, especially if the investor likes to choose their own investments, possibly with a little assistance from the advisor, or if the investor plans to buy their positions and hold them long-term. On the other hand, an ongoing management fee is a great option for those who need the expertise of a qualified advisor who actively manages portfolios.

The flat fee, based on the value of the portfolio, removes many of the egregious abuses perpetrated by unscrupulous advisors in the past, such as unauthorized trading (placing trades in a client's account without their authorization for the purpose of generating commissions), churning (placing a high number of trades in a client's account for the purpose of generating large commissions), and recommending riskier investments for the purpose of generating commissions.

The flat fee places the advisor on the same side of the table with the investor, meaning that both the advisor and the investor have the same goal and same incentive, which is to grow the value of the portfolio. If the value of the portfolio increases, the investor is happy, and the advisor is also happy because the flat fee is charged on the value of the portfolio, so that the dollar amount of the fee increases as the value of the portfolio increases.

One other issue with commission-based advisors is that they typically cannot provide correctly-calculated performance numbers for their clients. In fact, most brokerage firms will not allow their advisors to provide any performance reporting to clients, unless the client's portfolio is managed by outside money managers and the advisor is acting as a consultant only. It is hard to understand whether the advisor is doing a good or bad job if performance is not available. Investors should be wary of any investment professional that cannot provide regular, correctly-calculated performance (see next question).

7. What is your track record?

As mentioned above, many advisors are not allowed to present performance data to investors. Most don't have the software necessary to do the calculations correctly, and again, many firms, especially brokerage firms, do not allow their advisors to provide performance. It is important to ask for performance; the longer the track record, the better.

However, keep in mind that performance is historical. The first thing any advisor will tell you is that past performance is no guarantee of future results. You will see some version of the previous sentence on every performance report you see, period. This statement is very important. If you look at overall investment performance, either for portfolio management companies or for mutual funds, you will see that the ones that do well during a given time-period tend to underperform during the next. There are a multitude of reasons for this, which I'll detail shortly. One study I read showed that of the 7,520 mutual funds in the top quartile (top 25%) at the start of the five-year period 2002 through 2006, only 44 of them, or 0.5%, remained in the top quartile for the entire five-year period.

Within the track record data though, it is not enough to look at the raw performance number. One must understand the risk taken to obtain that performance. There are many ways to evaluate risk, including some statistical calculations that are usually available, like the Sharpe and Traynor ratios, standard deviation, alpha, etc. All of these have their uses, but one needs to understand how they are calculated and what their implications are before passing judgment. Again, since all of this is historical, one must understand that, even if all of these numbers look great, there is no guarantee that the great risk-adjusted performance will continue.

Here are some reasons why performance can be fantastic in one period of time, and then turn negative in the next:

First, most investment managers use a specific investment style. Most of these styles work well in only some of the various market environments that investors will experience throughout their lives. For example, there are times when value investing does very well, including during the past several quarters. During times when

earnings growth rates are slowing, economic conditions are weakening, or when growth stocks have just made large advances, value stocks will typically perform better. Value-oriented managers will outperform growth managers, in general, during these times. However, in times like we are entering now, value managers tend to underperform while growth managers outperform.

There are times when international investments do better than domestic, like the last year or so, just prior to the recent major correction in international markets. International managers will typically outperform domestic-only managers during these times. At the moment, looking forward, domestic stocks look more attractive than international, so it is likely that domestic managers will outperform international managers over the next several quarters.

The same is true for small-cap specialists versus mid-cap and large-cap managers. Investors must understand the performance numbers reported within the context of the investing environment and the specialization of the manager. One way to evaluate performance is to look at customized indexes designed to make comparisons more accurate. For example, one can look at the BARRA Value index to evaluate a value manager, or use the Russell 2000 index to evaluate a small-cap specialist.

If the investor is paying an advisor to be their consultant, the consultant should be performing the performance evaluation and providing an easily understandable summary of appropriate investment performance information. Don't settle for your advisor's verbal explanation of what they think your performance has been. If all else fails, take the amount you started with, subtract any withdrawals you have made, and add any additions you have made; this is your net investment amount. Then subtract that number from the current portfolio value. This is your net dollar profit, if it's positive, or your net dollar loss, if negative. Then, divide your net dollar profit or loss by your net investment amount. This is *not* your correctly-calculated performance, but it will tell you the percentage increase or decrease on the net dollar amount you have invested.

At the end of the day, what you really care about is not the percentage returns; it's the actual dollars that your investment portfolio is earning for you. The percentage performance data is important in terms of evaluating whether or not your advisor is doing a good job. But, the dollar profit is what you really care about, because that is the tangible asset that you can then go out and spend for retirement or whatever your long-term investment goals may be.

8. How much do you charge?

This question flows from the last one, in that the type of investment approach used will in large part dictate how much the fee or commission should be. The more

complex the investment strategy, the higher the fee will typically be. Also, the consulting approaches offered by brokerage firms are normally quite expensive because the investor is paying each outside manager, transaction charges, and the consultant. Accounts of this type usually have a wrap fee, meaning that all of the charges are wrapped into one fee, which can be as high as three percent per year. It is a good idea to ask questions about all charges to better understand exactly what you are getting for your money. Obviously the higher the fee, the more difficult it will be for the manager or managers to perform well, as the fees are deducted from gross performance.

Many advisors will negotiate a lower fee, if asked, so it's a good idea to question the size of the fee, especially if you feel it is too high. A multi-manager approach can be advantageous, especially if you are a long-term, buy-and-hold type investor. The critical issue with using a multi-manager approach along with a consultant is making sure the consultant is performing their duties, and has the expertise to understand what the individual managers are doing. The consultants job is to evaluate each manager to make sure they are following their stated investment strategy, and that they are performing well. The consultant must recommend changes to the investor, if the managers do not follow their strategies, or if they underperform consistently.

The CIMA designation is the top credential for consultants. If your advisor has this credential, you can feel confident that your consultant has specific training in all areas of the consultative process. If you are using a consultant, you are paying extra for this service. You will want to ensure that you are getting what you are paying for, and if not, you may want to consider changing advisors.

There are also fee-based accounts with brokerage firms that allow the investor to place their own trades, or to work with an advisor to build portfolios without the use of professional money managers. Recently, there was a lawsuit filed, which forced brokerage firms to change the structure of these accounts. The problem was that many brokers were placing clients into this type of account, which is supposed to be a managed account, but they were not offering any planning services or asset allocation strategies for the fees charged. The lawsuit forces brokers to provide investment policy statements, and asset allocations for clients who invest with this type of account, and to provide ongoing evaluations and updates to the asset allocations and investment policy statements, etc.

If you are paying an ongoing fee of any kind, just make sure you are getting value for your dollars. An ongoing fee should get you more than just occasional transactions. There should be a well-defined investment plan, financial planning, tax planning, an asset allocation based on your specific needs, and all of this should be reviewed at least annually.

Unfortunately, many brokers focus their time on raising more assets, and not on servicing the existing clients that they have. Brokerage firms push their advisors to

produce more revenues and to obtain new assets. Many clients, once investments have been made, rarely, if ever, hear from their broker again, unless they call the broker. Even then, many times the investor may wait many days or even weeks before hearing back.

Whether you are paying commissions or fees, you deserve to receive a reasonable level of attention and service. When you call your advisor, they should know you and should be familiar with your investments. If they are not, you should be immediately suspicious of their ability to properly advise you. Do not settle for a poor or incompetent advisor, just because it is a pain to move your account. You must have your assets working for you at all times, and leaving them with someone who doesn't care is unacceptable.

Ask for the advisor's fee schedule in writing. Firms will not allow advisors to send out anything in writing unless their compliance departments have approved it. This means that anything they send out must be accurate, and must provide full disclosure as to its content. With regard to fees and commissions, if the advisor sends a description of their charges, you will get the true picture of what it will cost you to invest. If they refuse to provide their fee schedule in writing, look elsewhere. Certain investments may have separate fees not contained on the advisor's official fee schedule. Ask about specific fees for any investments you are considering. Make sure you understand exactly what you will be required to pay *before* you agree to the investment.

In general, fees on hedge funds, private equity, venture capital, and complex investment strategies will be higher than those for traditional strategies. The fee should relate to the complexity of the investment and generally the risk taken; the higher the risk, the higher the fee. You must judge for yourself if the fee is justified. Again, ask questions, especially if you are uncomfortable with the fee.

9. Am I an 'A-book' client?

This question is an interesting one, and a tough one for an advisor to answer. This one will probably make their head spin a bit. Advisors, like all sales people, use the 80/20 rule, which states that you will get 80 percent of your business from the top 20 percent of your clients. The clients in the top 20 percent are considered 'A-book' clients, and the lower 80 percent are considered 'B-book' clients.

Advisors will typically spend the majority of their time on those clients that represent the top 20 percent of their total. Let's face it, advisors are in business to make money, and they spend their time where they can make the most money, which is with their best clients. The issue for the investor is to identify whether or not you are one of those top 20 percent of the advisor's clients, because if you are not, you will not get

much, if any, attention. If they are not calling you regularly, I can promise you, they are not closely watching your portfolio.

You need to ask yourself if you prefer to be a small fish in a big pond, or a big fish in a small pond. Again, there are compromises to be considered. As a large client to an advisor with a smaller book of business, you may get more attention, but the advisor may be less experienced, so the value of the attention may be minimal. On the other hand, as a smaller client to a more established advisor, his or her attention may be valuable, but if you are not receiving their attention, the value of it may be meaningless to you.

Assuming the advisor tells you the truth, you should seriously consider this issue and decide if you will receive the service you require. Some investors don't want to be called often, and prefer that investments are made and left to grow with little change. If you are this type of investor, being one of the advisor's lower 80 percent may not be concerning. But, if you tend to expect regular phone calls, and that your advisor is actively monitoring your portfolio, you will want to know where you stand in relation to his or her other clients.

One way to determine where you stand within the advisor's book is to ask what his minimum account size, average account size, and total assets under management are. You can easily see where you stand by examining these numbers in comparison to the value of your portfolio with that advisor. If you fall somewhere in the middle or below the average, you will know that you are not one of his or her top clients. An exception to this would be if you trade on commissions with the advisor and are very active. Otherwise, you are not an 'A-book' client.

Finding a workable compromise with fees and commissions, the level of service you receive, the experience, credentials, and education of your advisor, and the type of investment approach they offer is tricky, but it is also the key to gaining satisfaction from your relationship with your advisor, and hopefully getting the performance you desire as well.

10. Do you have any complaints on your record?

Although I placed this question last, it is by no means unimportant. An advisor's record of complaints and lawsuits, if he or she has any, is probably the most direct way of determining their character. While there can be many explanations for one or two complaints, or even a lawsuit, a history of multiple complaints over time is very telling. I would say that advisors with a history of complaints, especially serious complaints of unauthorized trading, fraud, churning, etc, should be avoided.

Investors can see an advisor's complaint history and also see how many different firms the advisor has worked for, by checking the FINRA website at www.finra.org. If you click on 'FINRA BrokerCheck' in the top left corner, you can enter the

advisor's information and get a report on their compliance background. I would recommend checking the background of any candidate prior to agreeing to invest with them. If, after checking their background, you have questions, use the information to ask the candidate about their background. If they are forthcoming and honest, and their answers satisfy your concerns, you can move forward. There are many opportunities for abuses to occur in the financial services industry, and despite the high degree of regulation, they do still occur rather frequently. Protect yourself by doing your homework *before* you invest.

SUMMARY

It is your responsibility to evaluate all of the answers to these questions as a whole, to determine if the advisor candidate is a good fit for your unique needs. Only by asking these and other questions will you identify the best candidate for your needs. If, after evaluating several candidates, you are not able to find one that feels right; wait. Taking time up front to identify the right advisor will pay dividends in the long-run.

After going through the exhaustive process of evaluating multiple candidates and choosing one, you should feel confident that you have made a good choice, and should stick with that advisor, even in tough times, unless they fail to meet your expectations. If you have taken the time to choose wisely, you will have more confidence in your advisor, which will help you psychologically to stay the course, if markets are volatile.

The worst mistake investors make is to panic in down markets and sell everything. They invariably sell at the bottom, and then end-up chasing investments, buying back in at higher levels and losing money. If you have confidence that you made a good choice, when your advisor tells you to stay the course, you will be more likely to follow his or her advice. This could prevent you from making costly mistakes.

I would also advise you to identify those issues that are important to you. This will depend on the type of investor you are—if you are a buy-and-hold forever type of investor, you want to find an advisor that specializes in this style. Be very careful of banks and other firms that use the buy-and-hold strategy, but are not careful about the initial prices they pay for investments.

If they use a model portfolio, they may simply dump all of your money into the model at the time you initiate your relationship, with little or no regard for the prices of the individual investments being paid. A buy-and-hold strategy can work, but only with strict discipline with regard to acquisition prices. Again, ask a lot of questions about how your money will be invested, *before* you agree to the plan.

If you are looking for an actively managed portfolio, make sure the advisor is an expert in this type of strategy. Again, the background of the advisor and the fees charged should be appropriate, given the strategy.

In terms of larger firms, don't simply assume that because an advisor works for a large firm that they are qualified to give you advice. Many, many times the advisors at large firms are actually less experienced or complete rookies. Some may have only recently passed their licensing tests. It is easy to walk into a fancy office and assume that everyone working there is an expert. This is simply not the case.

Ask about the advisor's daily routine. How often will they contact you? How often will they meet with you? How often do they send statements and performance reports? Pin them down on their level of service, and if it doesn't fit with your expectations, look elsewhere.

I hope this information is helpful, and that you will use it to evaluate potential candidates when searching for a qualified advisor. You should think of your relationship with your advisor in the same context as your relationship with an attorney if you were accused of a serious crime, or with a doctor if you had a serious disease. It is that important. Your financial well-being is every bit as important as your health and freedom. I wish you great success in your quest for the perfect advisor!

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