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SELECTING AN INVESTMENT ADVISOR
"THE BIG SIX"

Hiring an investment advisor can be one of the most important decisions that you and your family can make. In fact, studies have indicated that investors who have advisors tend to enjoy better results over time than those without them.

One of the largest investment management companies in the industry, ***Vanguard***, published a study in July of 2022 that attempted to quantify the benefits that advisors can add by providing cogent wealth management through financial planning, disciplined investing, and guidance. According to the report, *"Putting a Value on Your Value: Quantifying Vanguard Advisor Alpha"* using a wealth manager framework can add up to, or even beyond, 3% in terms of net returns for clients[1].

While there are many benefits of having a wealth advisor, finding the right advisor can be a daunting task for even the most seasoned investor. It is important to find candidates who have the right certifications and expertise. Almost anyone can call themselves an 'advisor' and the range of services offered can vary greatly. Unfortunately, there are few resources that provide a usable framework on how to make sense of an industry that is filled with conflicting, and often conflicted, advice.

To provide a basic framework, we have provided a checklist of minimum qualifications that we believe are important to narrow down the list of potential candidates. If the financial advisors you are interviewing do not meet the basic criteria, then no matter how much you may like the advisor, or how strongly they are recommended, there may be significant reasons why they may not be right for your situation. What follows is a list of the items that any investor should consider before hiring a wealth management advisor, and a checklist at the end to help organize your search:

1. CONFIRM THEY ARE FIDUCIARY:

The most important question that you can ask a potential advisor is if they are a fiduciary. The fiduciary standard means that they are bound to always act in your sole benefit and must fully disclose any potential conflicts of interest. Most fee-only financial advisors are fiduciaries, and it is estimated that only about 15% of the advisors in the entire industry are Registered Investment Advisors (RIA's)[2].

Unfortunately for investors, many advisors and organizations claim to be fiduciaries, but the structure of their companies and services make it almost impossible to place the client's interest first due to inherent conflicts of interest in business models. For example, any organization with a Broker-Dealer may not always act as a fiduciary because they have a component of their business that is commissioned. Insurance companies and bank-owned advisors will also typically have a quota of insured or guaranteed products that they must sell to clients, meaning that their decisions are not always impartial.

To help mitigate these conflicts of interest, the SEC passed Regulation BI (Best Interest) in 2019, regrettably, this guidance does not remove the structural challenges of selling products while claiming to be a completely unconflicted fiduciary advisor[2]. In order to select a true fiduciary advisor, investors must be aware of the nuances and potential conflicts of interests which may not always be apparent at first glance.

2. **CHECK THEIR CREDENTIALS:**

Once you have confirmed that an advisor is able to focus on your best interests, you should focus on their qualifications, education, training, and years of industry experience. It is important to look for wealth management advisors that hold relevant industry certifications, and that have a proven track record of advising clients successfully.

- Review the quality and level of education of the prospective advisor. Advanced degrees including MBA, PhD, JD, and MA in a relevant field of study are an indicator of the accumulated skills and abilities of an advisor.

- Seek professional credentials and certifications. Look for advisory teams that have Certified Financial Planners (CFP®), Chartered Financial Analysts (CFA®), or Certified Wealth Advisors (CPWA®) among other qualifications. These certifications require that continuing education is a part of their professional development so that their skills remain current.

- Pursue discussions with advisors that have the appropriate life, and market, experience because they are usually more able to bring a holistic approach to managing your wealth. They understand family dynamics and challenges, as well as being able to provide guidance based on experience when markets get difficult. Advisors play an important role as life coaches in addition to being financial experts.

Unfortunately, almost anyone can call themselves a financial advisor, so it is crucial to research the qualifications of your prospective advisor before you hire them.

3. **CHECK THEIR COMPLIANCE TRACK RECORD:**

Assuming you find an advisor that meets the above criteria, your next step should be to ensure that they are conscientious market participants, and that they follow the highest standards of industry conduct.

- Ensure that the wealth management advisor, and their firm, are properly registered and compliant with relevant regulatory bodies. You can verify their registration through the Securities and Exchange Commission (SEC).

- Be sure to read the investment firm's ADV (this should be provided to you during any relationship discussions) and look for any disclosures that relate to misconduct or disciplinary issues.

- Also check the Financial Industry Regulatory Authority (FINRA) website - BrokerCheck - for advisor misconduct issues. This database provides an online public resource listing all registered investment advisors and their firms.

Confine your search to firms and advisors with clean track records and those who practice with a culture of compliance. Firms that have a strong track record in these areas have a strong foundation in place for relationships that are based on trust and integrity.

4. **UNDERSTAND THEIR APPROACH TO ADVISING:**

Assuming you find an advisor that clears the above hurdles, it is important to understand their approach to advising clients. There are many different approaches to advising but here are a few important elements to look for:

- Ask them to discuss the process they use to advise clients. The most effective advisors will ensure that they have a *clearly defined process* which will be used to create a strategy for your unique situation.

- Confirm that they will provide a financial plan for you and discuss how often it will be updated and reviewed. Often, advisors want to jump into managing your assets, yet it is impossible to invest a client's assets appropriately without doing thorough planning work first.

- Discuss how often you will meet, which services are included or excluded in the relationship, and how the advisor defines success. Ensure that the answer is focused on your goals rather than on selling you an advisor's 'one size fits all' approach and objectives.

- Confirm who you will be working with if you choose to move forward. Some firms may provide a great presentation with their senior advisors, quickly handing you off to a more junior advisor when you are on-boarded. This may be disappointing in the early stages of a relationship.

5. UNDERSTAND THEIR APPROACH TO INVESTMENT MANAGEMENT:

Investment advisors can have vastly different approaches to managing your assets, and it is important to understand how they intend to invest your money. While there are many ways to successfully manage money, there are some concepts that can be applied broadly to achieve better outcomes:

- Seek advisors that discuss the importance of asset allocation, diversification, and blending active and passive investments to achieve your goals. Advisors should not take large bets in portfolios - one of the roles of a wealth advisor is to protect and grow your assets.

- Ensure that your advisor has a defined process for investing your assets and that there is an investment committee (more than one person) that meets to discuss, frame, and document important investment decisions. Ask your advisor to discuss how they define investment success for their approach, and how they measure it.

- Be wary of advisors that try to time the markets. Even the best investors in the world, including Warren Buffet, have acknowledged that no one has been able to achieve success using this approach, and that trying to do so is one of the surest ways to lose capital.

- If you are hiring an advisor to manage an existing low-cost basis portfolio, confirm that they *will not* sell you out of all holdings to fit their style of investing without a thoughtful discussion. The capital gains tax implications of this can be staggering. There are often ways to manage assets more effectively than just turning the portfolio over.

- Look for advisors that use the best investment strategies in each of the asset classes they are exposed to. Some investment advisory firms only use their own proprietary funds, and while they may be good in several asset classes, no firm is the best in every category. If they have an approach that eliminates better products in any category, they are no longer serving you in an unconflicted fiduciary capacity, and you will have a sub-optimal portfolio.

- Discuss their use and experience with extended asset classes, like alternative investments. Ask them if, when, and how, they might be able to employ these investments if needed.

Every client has a different situation, so it is important that you look for the right level of investment expertise given your immediate, short, and long-term goals. This will ensure that your advisor will be able to evolve with you as your investment needs and complexity grow over time.

6. UNDERSTAND THEIR FEE STRUCTURE:

It is important to ask your prospective advisor to outline fee structures and to understand how these relate to your goals and future situation. An average industry fee is around 1.02% of assets under management, however, it is important to focus on the cost of services provided, in addition to what is included in the relationship in terms of services[3].

- Some advisors do everything for their clients, from estate planning, tax planning, risk management, establishing trusts, alternative investments, mortgage guidance, and generational planning. They will also manage assets to ensure that a client is being cared for holistically. This multi-strand approach can lead to greater success over time.

- Certain providers may be solely focused on managing your money, while others may offer a limited range of services and charge extra fees for further offerings. It is therefore important to understand what you are getting for the charges that you are paying, and if the services provided fit your needs and expectations.

- It is important to be aware of any other expenses that may be incurred, especially hidden fees, brokerage costs, custody costs, and commissions. Other potential conflicts of interest may result in a drag on your net portfolio performance. As with hiring any professional services provider, a lower advisory fee may not represent good value if the quality of the advice is not up to par, or if there are hidden costs that are not clearly disclosed.

SUMMARY & CHECKLIST

Hiring a financial advisor is one of the most important decisions you can make for yourself and your family. Taking the time to do proper due diligence on potential partners is important for a positive outcome. While a referral from a friend is often the starting point, it could be counterproductive if their situation, needs, or advisor capabilities and experience requirements are very different from your own. It is helpful to think about what is most important to you as you begin your search. Once you have an idea of what you are looking for in an advisory relationship, the professionals that meet the 'Big Six' criteria can be a good starting point for further due diligence and consideration.

Requirement	Advisor 1	Advisor 2	Advisor 3
Unconflicted Fiduciary Advisor			
Professional Credentials, Education & Experience			
Clean Track Record (SEC & FINRA & ADV)			
Approach to Advising – Clear & Defined Process			
Approach to Investing – Process Driven & Sensible			
Fees – Reasonable & Inclusive			

1. Vanguard. "Putting a value on your value: Quantifying Vanguard Advisor's Alpha."
2. The Types of Fiduciary Financial Advisors (usnews.com)
3. How Much Does a Financial Advisor Cost? - SmartAsset

Pension & Wealth Management Advisors does not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.