FINANCIAL POST

March 7, 2016

Four ways to assess whether an investment adviser is right for you

By Nancy Grouni, Jason Heath

Jason Heath and Nancy Grouni: If you are paying more than 1.5% per year in fees, you should know that there may be lower cost alternatives - some...

When you work with an investment adviser, you are making an investment in them. Every day that you continue to work with them, you are choosing not to "sell" that investment. Of course, it's easy to just settle into a routine. Just as you hope your adviser is evaluating your investments on a regular basis, so too should you evaluate your adviser. Not sure where to start? Financial planners Jason Heath and Nancy Grouni outline four ways to grade your adviser.

1. Philosophy: What is your adviser's investment philosophy? Do they build concentrated North American blue chip equity portfolios? Are they global value managers looking for stocks trading at a discount? Do they use passive ETFs with an active global geographic overlay?

Regardless of which strategy is "right," without a conscious plan to manage a portfolio, an adviser may just end up being a gunslinger picking off investments without a plan.

If you are paying more than 1.5 per cent per year in fees, you should know that there may be lower cost alternatives - some much lower.

Your asset allocation between stocks and bonds and how much is in Canadian versus foreign investments should be deliberate and articulated. Make sure your adviser provides a consolidated report that captures all of your accounts to obtain this kind of practical information that may not be clear on statements for your individual accounts.

2. Options: It is important to understand what investments are available through your adviser or their firm that they may not have talked to you about in the past. Maybe you would be interested if you knew.

Talk to your adviser about other options in the market place. What are mortgage investment corporations? What are annuities? What are exchange-traded funds? Maybe none are right for you, but use your adviser to get educated. It will be better for both of you in the long run.

Also ask if they can build you a retirement plan to project your assets, income and expenses through retirement. Some firms provide it as a "free" service that you are effectively paying for through investment fees.

3. Fees: Do you pay a transaction fee when you buy or sell, or is your adviser fee-based, where you pay a percentage of assets under management? Can you imagine checking out at the grocery store and just handing over your wallet without asking how much your groceries cost? It sounds ridiculous, but that is just what many investors do when paying to manage their hard-earned retirement nest egg.

If you are paying more than 1.5 per cent per year in fees, you should know that there may be lower cost alternatives - some much lower.

4. Performance relative to a benchmark: Ernst & Young's 2014 Wealth Management Survey found that 73 per cent of baby boomers and older clients state that portfolio performance is the top concern with their adviser. When assessing how well your investments are performing, the obvious question should be: "Compared to what?"

Ask how your overall portfolio has performed on an annual basis relative to an appropriate benchmark, net of fees. While it would be nice to beat the benchmark, mathematically, not everyone can do that. But you don't want to be too far off.

Your investment adviser should review your portfolio annually at minimum and maybe as often as quarterly depending on mutual expectations.

While charts and graphs may seem impressive at first blush, stay focused on what you really need to know: Your adviser's investment philosophy, options, fees and performance. These can help you assess your adviser and make sure they are the right fit for you.

Jason Heath and Nancy Grouni are fee-only/advice-only Certified Financial Planners (CFPs) at Objective Financial Partners Inc. in Toronto

Illustration by Chloe Cushman, National Post