



Seven criteria for finding the right investment adviser

BRENDA BOUW

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There's a lot of controversy around investment advisers these days, and whether their services are worth the fees investors fork over.

But once you reach a certain level of wealth, most experts agree it's a good idea to get professional advice to not just manage your portfolio, but also ensure your investments are tax efficient and aligned with your estate plan. The biggest mistake many investors make is building a portfolio based on a patchwork of advice from friends and relatives, says Chuck Grace, a lecturer at the University of Western Ontario's Richard Ivey School of Business and a consultant to the wealth management industry.

"That's the fallacy of looking for financial advice at a cocktail party – you're assuming everyone you're talking to has the same background, financial statement and dreams of the future that you do. That's highly improbable," Mr. Grace says.

Mr. Grace offers up seven criteria he says investors should consider when hiring an adviser. They're the same for all investors with any portfolio size, but the details change when there's more money at stake:

1. Licensing:

Advisers in Canada are regulated in product-oriented silos such as mutual funds, exchange-traded funds and insurance. Some may not offer certain products you're looking for.

"In the high-net-worth space, needs can be more complex," Mr. Grace says. "You have to see if the adviser you're talking to is even allowed under law to give you advice on [various investments]. If they're not, don't be surprised if they're recommending a different solution."

Questions Mr. Grace recommends investors ask a prospective adviser: Can you explain your licensing to me? What products are you allowed to sell? What products are you not allowed to sell? Will any restrictions impede the advice that I need?

2. Certification:

An adviser with a CFP (certified financial planner) designation is probably adequate for everyday investors, Mr. Grace says, but high-net-worth investors might prefer a CFA (chartered financial analyst) to handle complex tax issues, for example. "You might want a lawyer to be in the mix, somewhere" to handle trusts in estate planning, Mr. Grace says.

Amin Mawani, an associate professor of accounting at York University's Schulich School of Business says investors should look for specialists in areas such as tax, estate planning and insurance.

"Sometimes financial planners are jack of all trades," he says. "You might need someone with more sophisticated tax knowledge."

Questions to ask: What certifications do you have? How will they enhance the advice you're going to provide? Are they applicable to what I need? If you don't have what I need, do you have access to those who do?

3. Experience:

"Everyone is looking for someone [who has] 'been there, done that,'" Mr. Grace says. "But the high-net-worth [clients] are looking for someone who has 'been there, done that' with other high-net-worth clients and has an appreciation for some of the subtleties and the details and the sophistication that comes with advising people with that much wealth."

Mr. Mawani recommends investors ask advisers to see details of how they're managing those others portfolios.

Questions: How long have you been in business? How many of your clients are high net worth? How long have you been working with them? Have you ever been fired? If so, why?

4. Compensation:

How advisers get paid is a hot topic today, especially now that fees are shown in dollar terms, instead of percentages.

How investors perceive value for advice changes with high-net-worth clients, Mr. Grace says, "Especially if it's getting really complex and sophisticated. If I'm looking for offshore tax advice, then knowing an adviser's compensation is embedded in a mutual fund isn't going to get that done."

Questions: How do you get paid? Where is there potential for conflict of interest?

5. Process:

Advisers are expected to base financial plans on initial and ongoing conversations with clients about their goals, objectives and risk tolerance.

"With high-net-worth [investors] you're looking for someone who is going to ask a lot of very detailed questions," Mr. Grace says, including in areas around estate and tax planning. "It should be a more sophisticated needs analysis ... not something on the back of an envelope."

Questions: What is the process you plan to follow that will lead me to an appropriate recommendation. "If they can't articulate that, run away," says Mr. Grace.

6. Resources:

When looking for an adviser, get some details on who's backing them, including staff and other resources such as financial institutions and money managers, Mr. Grace says. High-net-worth advisers should have a team of professionals helping them serve their clients.

"Everybody wants to know that, if they're going to give someone their life savings that it's backed by a reputable firm," Mr. Grace says. "With high-net-worth [advisers], the expertise, research, reporting and access to expertise goes deeper and broader."

Questions: What firm are you with? Who is behind them? How are you supervised?

7. Trust:

Trust is tricky, says Mr. Grace, because it's subjective.

Mr. Grace recommends high-net-worth investors do a lot of homework on their prospective adviser. That includes not just meeting with them in person, but getting introduced to his or his boss and

getting comfortable with their money management style. Investors should also check with various licensing bodies to make sure the adviser is legitimate.

Questions: Will you let me interview your boss? Can I interview two or three of your current clients. "The last one is tough" Mr. Grace says. "There is often a sense of privacy with high-net-worth investors."

Marian Passmore, director of policy and chief operating officer at the Canadian Foundation for Advancement of Investor Rights (FAIR Canada), says investors should ask a lot of questions before choosing an adviser.

"There is never a stupid question," Ms. Passmore says, calling the use of jargon in the financial services industry "disconcerting."

"Things should be explained in a way that you understand. If they're not, keep asking questions until you do understand – or maybe that relationship isn't the right one for you."