

BALANCING RISK IN RETIREMENT
GIVING YOU INSIGHT INTO THE ADVISOR'S CHARACTER AND EXPERTISE



NINE QUESTIONS TO ASK YOUR
NEXT ADVISOR BEFORE YOU HIRE THEM

LEE & Associates
HYDER

NINE QUESTIONS TO ASK YOUR NEXT ADVISOR BEFORE YOU HIRE THEM

Every day, people all across the country begin the search for a new financial advisor, some for their first advisor, and others looking for a better advisor. But how do you know if who you're hiring is the right fit for you? The goal of this report is to arm you with nine essential questions to ask any advisor you consider hiring.

The answers to these questions will give you insight into the advisor's character and expertise. You'll also get to see if he or she is a good match with your values, personality and specific situation.

QUESTION 1: WHY DID YOU CHOOSE THIS WORK?

This question inspires advisors to tell you about themselves. We find three types of people who become advisors.

- > First are the ones who love the puzzles - investments, economics, financial planning, and other numbers-oriented topics.
- > Second are those who love people and human dynamics.
- > Third are those advisors who have a deeply personal connection to helping other people with their finances.

This question will give you a glimpse at the type of advisor you are or will be working with.

QUESTION 2: WHAT HAPPENS IF I CAN'T REACH YOU?

What happens if you need help while your advisor is out sick, on vacation, on a flight, or out of cell range? Regardless of who you choose to be responsible for helping you manage your money, you might need to contact them in a hurry. How does the advisor handle your requests when they are not reachable?

It's not much help to know that someone else will answer the phone at the advisor's office only to say that the advisor is out. Make sure that someone in the advisors office is able to actually help you. That means that person has the ability — and licensing — to handle transactions for you.

Ideally, you want to know that if your advisor is away, there are others in the firm who are familiar with your plans, and who can offer assistance just like your advisor would.

If your advisor is away there should be others in the firm or group who are familiar with your plans, & who can offer you assistance just like your advisor would.

Types of Advisors:

- > Love Puzzles
- > Love Human Dynamics
- > Deep Personal Connection



QUESTION 3:

Why Should I Choose You?

The vast majority of financial advisors are ethical, honorable, credible professionals. Their depth of character will reveal itself to you in their answers to this question. They should focus on you and what you want. However, if you feel the advisor is trying to make a sale or talk you into something, that could be a big “red flag.” Pay close attention to the advisor’s level of sincerity and clarity of communication when he/she answers this question.

QUESTION 4:

What Kind of People Do You Usually Work With?

Your objective is to find a financial advisor who has relevant experience working with clients in your same life stage. The best way to do that is simply to ask, “Please describe your ideal client.” The closer you are to their description, the better your chances for having found a good match. We suggest that you do not talk too much about yourself or tell the advisor about your financial situation until you get the answer. The socioeconomic category of the advisor’s clients will give you great insight into whether or not his expertise and experience are relevant to you.

QUESTION 5: HOW DO YOU GET PAID?

Advisors get paid in a variety of ways depending on the types of licenses they hold, the products they sell, and the companies they represent. Most advisor compensation models will be made up of one of the following or a combination of the three.

- ➔ **Commissions on products sold:** Many financial products sold today are done so on a commission basis. Be aware of this. Often advisors are incentivized not only with high commissions, but also vacations to exotic places. And guess who pays for these commissions and trips: You do. In addition, many commission products will charge surrender fees for early withdrawal of your money. A commission in itself is not inherently evil, but be aware that it could influence the advisor's reason for making a recommendation in the first place.
- ➔ **Fee for advice:** A growing number of advisors operate on fee-based or fee-only approach. They charge a fee to write a comprehensive plan or strategy with no expectation that you implement any recommendations through their office. This approach may create more objectivity in the analysis and recommendations since compensation is not tied to the sale of any product. Advisors who work for fees are typically registered investment advisors and are required to provide you with a disclosure brochure called a Form ADV.
- ➔ **Fee for managing assets:** Advisors who manage stock and bond portfolios will often do so by charging a percentage of assets in the account. Often this ranges from .75% to 1.5%. These advisors receive no commissions on the account. If your account rises in value, they are paid more. Conversely, they receive less if the portfolio declines in value. This is a "pay as you go" approach that does not require any upfront commission or surrender charge for leaving early. For instance, "Fee for Advice" advisors who charge for assets under management are required to disclose all charges by giving you Form ADV before engagement.

In Summary:

Advisors can utilize a variety of compensation structures

1. They may get a commission on the products they sell
2. They may charge fees, either a flat fee or a percentage of the assets
3. They may choose to work for an hourly rate
4. Or they may use a combination of any of the above

Remember, there is nothing wrong with your advisor earning a living. You do, however, want to be sure the way in which they do so is in line the type of products and services that best fit your needs and life stage.

QUESTION 6: WHAT COSTS WILL I INCUR IN ADDITION TO YOUR FEES?

There's a perception that the financial industry contains two types of fees – ones that are disclosed and ones that are "hidden." Many firms and advisors won't tell you about these fees unless you ask. So, below is a list of fees to ask about.

- > **Account set up fees**
- > **Management fees**
- > **Annual maintenance fees**
- > **Advertising fees**
- > **Termination fees**
- > **Transfer fees**
- > **On-going mutual fund fees**
- > **Front-end load**
- > **Redemption fees**
- > **12b1 fees, service fees**
- > **Annuity fees**
- > **Surrender charge fees**
- > **Annual account fees**
- > **Operating expenses**
- > **Transaction fees**

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Fees while in and of themselves are not a bad thing (obviously everyone needs to earn a living) excessive fees can destroy your returns. Fees will vary depending on the product, company, and advisor, so be sure to ask your current advisor or any that you may be interviewing about the fees listed above to be sure you know exactly how much you'll be paying and what you're paying for. For added protection against unnecessary fees, consider asking your advisor for a complete disclosure (in writing) about the total fees you're currently paying or will pay to implement their recommendations.

QUESTION 7: WHAT IS YOUR INVESTMENT METHODOLOGY

An investment methodology is the advisor's approach to or beliefs about investing. It's sometimes called the "Investment Philosophy." You certainly do not want to hire an advisor whose methodology is contrary to yours. So, be sure to ask the following two questions:

- 1.** Ask if the advisor has a fundamental philosophy that guides his investment approach. Many don't have a formal approach. Instead, they merely sell a variety of investment or insurance products.
- 2.** Ask them to describe it fully. Find out what the methodology is and how the advisor came to develop it. Find out how long the current approach has been in place and what the results have been.



QUESTION 8: DO YOU HAVE A CLEAN REGULATORY RECORD?

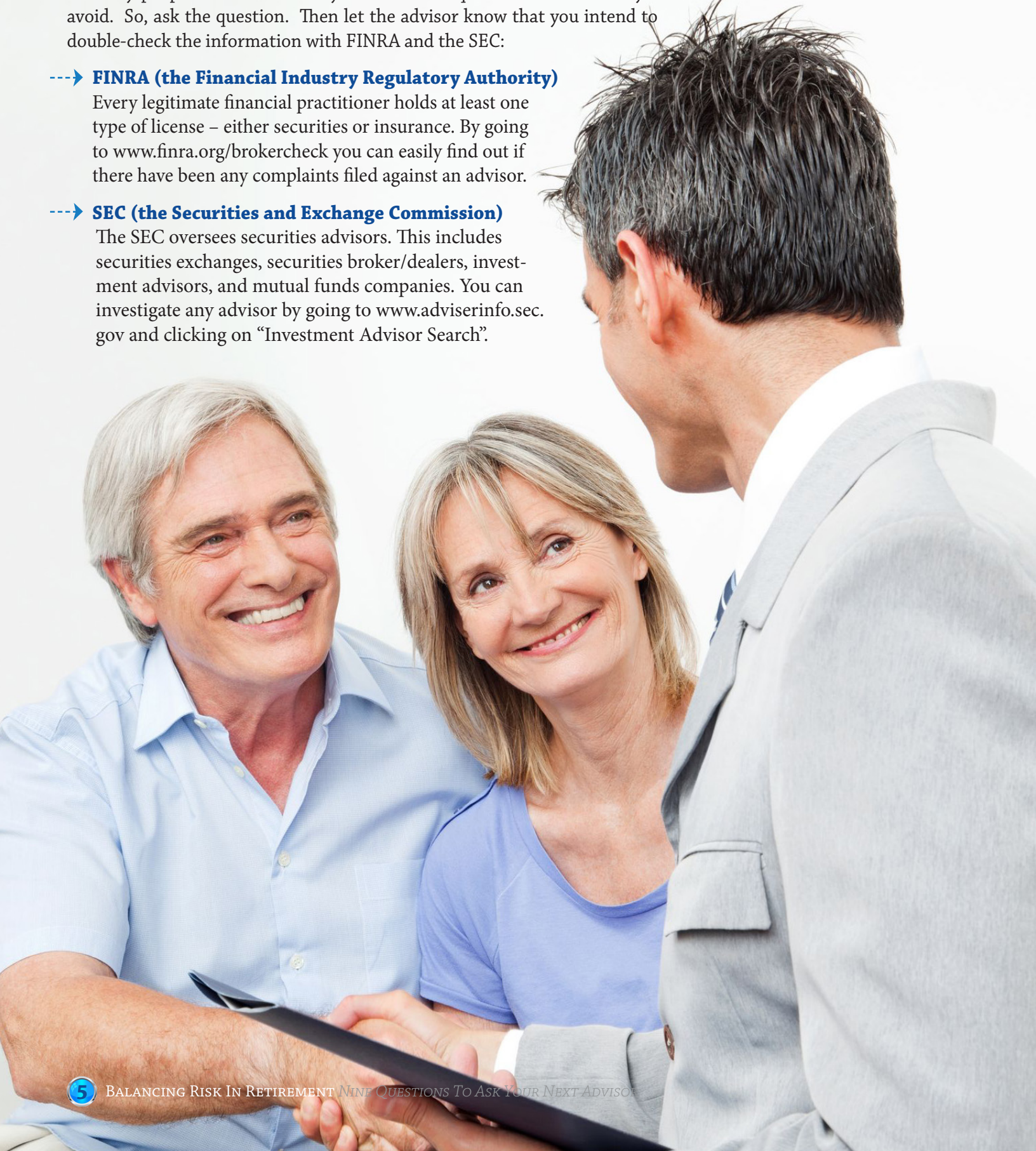
The only people who don't want you to ask this question are the ones you need to avoid. So, ask the question. Then let the advisor know that you intend to double-check the information with FINRA and the SEC:

---> **FINRA (the Financial Industry Regulatory Authority)**

Every legitimate financial practitioner holds at least one type of license – either securities or insurance. By going to www.finra.org/brokercheck you can easily find out if there have been any complaints filed against an advisor.

---> **SEC (the Securities and Exchange Commission)**

The SEC oversees securities advisors. This includes securities exchanges, securities broker/dealers, investment advisors, and mutual funds companies. You can investigate any advisor by going to www.adviserinfo.sec.gov and clicking on “Investment Advisor Search”.



THE FINAL QUESTION IS ONE TO ASK YOURSELF AFTER THE INTERVIEW

QUESTION 9: DID YOU UNDERSTAND WHAT THE ADVISOR SAID?

This question is like a piñata. It's filled with unforeseen ramifications. People in all industries rely on technical jargon. One common reason for this is that they are trying to impress you with their knowledge. Another is they could be trying to hide something inside wording you likely don't understand. Or, it could be that they don't know how to translate technical financial concepts into language you can understand. Whatever the reason, using language that is over your head is a mistake for three reasons.

- > It instantly drives a wedge between the two people. If you can't understand what the advisor is saying, how can you have faith in them or trust them to help you?
- > It strongly implies questionable communication skills.
- > It implies that the advisor does not care about communicating WITH you, but prefers to talk AT you.

Research published in 1981 showed that people look for two things when they grade a message: 1) ease of comprehension, and 2) personal relevance. If you don't understand what the advisor is saying, how could you know if the information is relevant? You can't.

Bottom line: Hiring an advisor who speaks in technical financial planning jargon that you do not understand will most likely lead to a troubled relationship.

You can never know everything about a potential advisor. But, by asking these questions, you will be far better informed about what to expect from the one you choose to hire. Ultimately, you are the one person responsible for your family's financial security. The advisor you hire is only an advisor. The questions above will help you to hire the one that's right for you.



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