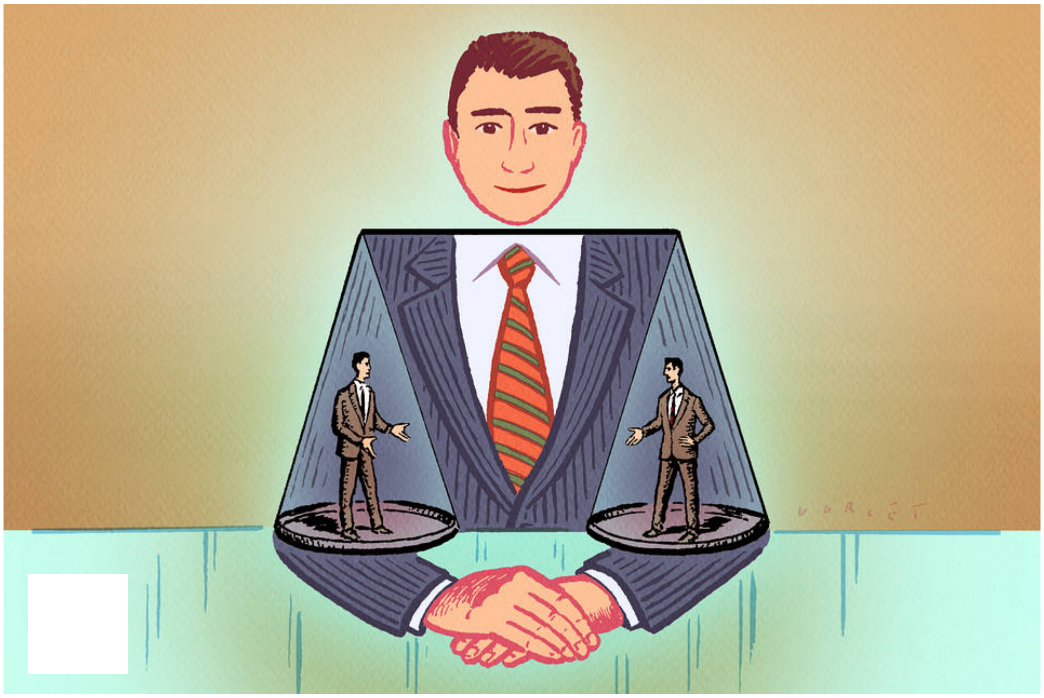
The 19 Questions to Ask Your Financial Adviser

The burden of finding an adviser who will act in your best interest is on you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81 COMMENTS

Getting all stockbrokers, financial planners and insurance agents to act in the best interests of their clients is a struggle that financial firms and their regulators still haven't resolved. That should be their job — but for now, it's yours.

The obligation of those who give investment advice to serve clients, not themselves, is called fiduciary duty. That obligation is far from universal and, in some ways, is in retreat.

The U.S. Department of Labor, which last year released a rule requiring brokers getting paid for investment advice on a retirement account to be fiduciaries, is reviewing the regulation. The rule is only partly in effect; the department has drafted a proposal to delay full implementation until 2019.

Meanwhile, the Certified Financial Planner Board of Standards, which sets competency requirements criteria and ethical rules for the nearly 78,000 certified financial planners in the U.S., is seeking to compel them to act in clients' best interests "at all times" when "providing financial advice."

The board's proposed standards require its financial planners to "disclose and manage" such conflicts as gifts, bonuses or investment choices that can increase their compensation. Planners would also have to provide additional details about how — but not how much — they are paid.

Some brokerage firms warn that they may put their interests ahead of yours regardless of whether your adviser happens to be a CFP.

Until regulators and trade groups sort this out — and the next total solar eclipse may come first — the burden of finding someone who will act in your best interest is on you.

That means asking an adviser the right questions (and listening for the best answers). I encourage you to clip or print out this column and bring it to your next meeting with your financial adviser.

1. Are you always a fiduciary, and will you state that in writing? (Yes.)

2. Does anybody else ever pay you to advise me and, if so, do you earn more to recommend certain products or services? (No.)

3. Do you participate in any sales contests or award programs creating incentives to favor particular vendors? (No.)

4. Will you itemize all your fees and expenses in writing? (Yes.)

5. Are your fees negotiable? (Yes.)

6. Will you consider charging by the hour or retainer instead of an annual fee based on my assets? (Yes.)

7. Can you tell me about your conflicts of interest, orally and in writing? (Yes, and no adviser should deny having any conflicts.)

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8. Do you earn fees as adviser to a private fund or other investments that you may recommend to clients? (No.)

9. Do you pay referral fees to generate new clients? (No.)

10. Do you focus solely on investment management, or do you also advise on taxes, estates and retirement, budgeting and debt management, and insurance? (Here the best answer depends on your needs as a client.)

11. Do you earn fees for referring clients to specialists like estate attorneys or insurance agents? (No.)

12. What is your investment philosophy?

13. Do you believe in technical analysis or market timing? (No.)

14. Do you believe you can beat the market? (No.)

15. How often do you trade? (As seldom as possible, ideally once or twice a year at most.)

16. How do you report investment performance? (After all expenses, compared to an average of highly similar assets thatincludes dividends or interest income, over the short and long term.)

17. Which professional credentials do you have, and what are their requirements? (Among the best are CFA [Chartered Financial Analyst], CPA [Certified Public Accountant] and CFP, which all require rigorous study, continuing education and adherence to high ethical standards. Many other financial certifications are marketing tools masquerading as fancy diplomas on an adviser's wall.)

18. After inflation, taxes and fees, what is a reasonable estimated return on my portfolio over the long term? (If I told you anything over 3% to 4% annually, I'd be either naive or deceptive.)

19. Who manages your money? (I do, and I invest in the same assets I recommend to clients.)

Are there other questions you would add to the list? Please send them my way at intelligent.investor@wsj.com and I'll write another column with your best recommendations.