

Investment Advisor Checklist

Evaluate Your Options & Select Wisely

October 4, 2006

A recent survey by the Retirement Corporation of America shows that more Americans rely on themselves and their friends for making crucial investment decisions rather than turning to financial advice from professionals. However, the number of investors seeking professional advice is still very high.

Industry estimates show that close to 650,000 such professionals provide some level of services to individual investors today and while Americans understand the risk and reward potential associated with investing, most do not have a set criteria in mind when selecting a financial advice professional.

Retirement Corporation of America, a registered investment advisory firm, urges investors to keep the following in mind when choosing to work with investment advisors in order to maximize their success.

Know what services you need

Every investor should start by taking stock of what services they need in order to reach their financial goals and what type of professional can meet their needs. There are significant differences in the various types of advisors and the services and guidance they are able to offer.

An Investment advisor is an individual or firm that advises clients on investment matters on a professional basis. Investment advisors may manage pension funds, trust funds and personal investments including stocks and mutual funds on behalf of their clients.

Financial planners can offer advice on investing, but also are able to help clients with other aspects of their finances including savings, insurance, taxes, retirement and estate planning.

A Broker, on the other hand, buys or sells stocks on behalf of clients.

Find out how your advisor benefits from you

Investment advisors are typically paid either a percentage of the value of assets they manage for a client, an hourly fee or fixed fee or a combination of these.

It is important to know that investment advisors have a fiduciary responsibility to act in the investors' best interests in all aspects of the financial relationship and do not accept any commissions from the brokerage industry.

Financial advisors and stockbrokers, on the other hand, do not offer this protection.

Know what questions to ask

Conduct interviews with the advisors you are considering in order to gauge their level of professionalism and their ability to offer the services and expertise necessary for your specific situation.

Questions may include:

- What experience do you have?
- What services do you offer?
- What licenses do you hold?
- Where are you registered?
- How much money do you manage?
- How are you paid?
- Do you have a minimum account fee or minimum investment?
- How will you help me with my investments?
- How do you differ from other professionals in the field?

Thoroughly check references and credentials

Obtain "Form ADV" for the advisors you are considering working with. This provides you with background information on the advisor as well as the services they offer, how they are paid and what strategies they use. You can obtain this from the advisor, the state securities regulator or, for advisors who manage \$25 million or more in client assets, the SEC.

Since no state or federal law requires professional advisors to have specific credentials, it is important to ask the advisor about their professional and education background. For those advisors that say they do have certain credentials, determine what organization the credential is from and what it means.

"It is surprising to see how little research individual investors conduct before selecting their investment advisors," said Daniel Kiley, chairman and chief compliance officer of the Retirement Corporation of America.

"Investors struggle with the selection process because most have never experienced a working relationship with a registered investment advisor, nor have they been educated on what qualities are important to seek out. Not only do investors need help understanding their own financial goals, but they also lack the fundamental knowledge about the tools they need and the types of financial advice professionals who can help them achieve their goals."

Once selected, it is critical that investors know how to evaluate their advisors. The following criteria should be applied for this purpose:

Returns

Regularly check in on how your money is performing in the investments recommended by your advisor. Measure portfolio performance relative to your investment goals, risk tolerance and investment climate for the assets invested. Utilize a metric that matches your investment strategy, such as a combination of popular stock market measures like the Dow Jones industrial average or the Standard & Poor's 500-stock index.

Ensure you are utilizing the proper benchmark for the various asset class and sectors where you are investing.

Cost-benefit ratio

While your money may be performing well, it is important to look at how much of the return on investment is being handed over to your advisor.

Quality of investment recommendations

Test your advisor's knowledge of the latest investment approaches and how prepared they are to stay on top of the ever-changing market. Advisors should be able to offer suggestions and insight on new strategies and investment approaches.

Be sure to ask questions about new recommendations your advisor brings to the table, to ensure they are an appropriate fit with your strategy and financial situation.

Working relationship

Regular interaction and communication is an important part of your working relationship with an advisor. Good advisors maintain contact with clients at least quarterly to update them on how their money is performing and any changes they should be making in their investment approach.

SOURCE: Retirement Corporation of America.