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What's in a Name? Five Questions to Ask Your Financial Advisor to Find Out

By Ian A. Post, CFA, CFP®

Many individuals describe themselves as financial advisors when you ask their profession. But what does that really mean? Are financial advisors required to hold any specific licenses or credentials to use that title? You might be surprised that the answer is no. The same goes for those utilizing titles such as “investment advisor,” “financial planner” and “wealth manager.”

Given this lack of clarity about financial titles, investors seeking to hire an advisor to handle their finances should ask that advisor critical questions to understand:

- How the advisor is regulated.
- What the advisor's compensation structure is.
- Whether the advisor has a fiduciary relationship with clients or not.

Here are five questions you can ask to help you find out.

1. Do you always adhere to the Investment Advisers Act of 1940?

A “Yes” response to this question means you are speaking with a true advisor. The individual has a fiduciary duty to you as a client meaning they are required by law to place your interests ahead of theirs. Beware of caveats when someone answers this question. They either are or they are not required to place your interests before theirs. Any attempted middle ground should be interpreted as a “No.”

2. Are you regulated by FINRA (Financial Industry Regulatory Authority)?

FINRA is the non-governmental regulator for broker-dealer firms. A “Yes” response to this question means that this person is, regardless of their title, a salesperson. Their job is to sell you securities and investment products.

3. Does my investment strategy affect your compensation?

A “Yes” response means that this individual has a conflict of interest regarding their recommendations to you. They are incentivized to generate more revenue by either selling you more expensive investment products when less expensive options are available or selling you investment or insurance products you don't need.

4. Are you compensated by any party other than your clients?

A “Yes” response to this question means that the person you are speaking to may receive various forms of compensation from other parties including commissions, sales loads, 12b-1 fees, revenue sharing, profit participation or referral fees. These compensation arrangements are created to benefit the parties involved and not the client.

5. What credentials, education and/or experience do you have that qualifies you to advise me on my finances?

In the absence of any standard financial advisor credential, you should ask what qualifies

this individual to advise you on your personal finances. No one specific degree or credential can make someone an expert on personal finances but one thing to be aware of is that having a securities license, such as a Series 7, or a license to sell life insurance, does not qualify someone as an expert in personal financial advice.

It's your money, make sure you ask the questions.

Do not be afraid to ask these questions. I have found that while people generally understand the importance of the fiduciary relationship, upon pointing out that their current “advisor” is not a fiduciary but rather an investment product salesperson, their response is often some form of “yes that makes sense, but I really like Joe.” I would make the final point that any financial advisor can choose to work as a fiduciary advisor while minimizing conflicts of interest. If someone has chosen not to do that, maybe the final question should be “why not?”

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