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Choosing an advisor as important as choosing investments

Choosing a financial advisor is as important as choosing investments. With either, taking time to make the right decision can have a big impact on portfolio performance over the long term. There is much to consider.

Seek a professional who fits your financial goals. Many advisors are specialists and, just as you wouldn't use a trial lawyer to process a real estate transaction, neither should you choose an advisor who isn't right for you. It can be helpful to seek recommendations from friends who have requirements similar to yours, but due diligence is still essential.

Check the advisor's qualifications. Full details on advisors registered with the Investment Industry Regulatory Organization of Canada (IIROC) are provided through the IIROC AdvisorReport website, free of charge. Investors can determine if the advisor is a properly qualified and registered professional at an IIROC-regulated firm, and can conduct research on their background including disciplinary issues.

Ask about experience and education. To use a medical analogy, the best doctors keep up with the latest medicines and techniques, and it's the same in financial planning where the leaders are committed to expanding their knowledge. The financial industry requires advisors to update skills through continuing education but some choose to go further by acquiring special designations and accreditations beyond regulated requirements.

An advisor should have products and services that fit your financial profile. Some advisors are only qualified to offer one type of product, such as mutual funds. This may be viable for small portfolios, but investors with larger portfolios will want more choices. Others, such as high-net-worth clients, need integrated financial planning services, which include tax and estate planning, retirement planning, and insurance.

Many investors have shifted to discretionary portfolio management services where the day-to-day investment decisions are delegated to a Portfolio Manager (PM). Unlike traditional advisors, PMs can publish their track record. Investors who are not using PMs should ask for the track record of the various products they employ in their portfolios. It is also advisable to ask for testimonials.

Advisor cost is a critical factor but surveys have shown that nearly half of investors are unaware of the fees they pay. That should never be. Ask to have the fee structure clarified in detail and insist on a written statement of all fees. You must know exactly how much you're paying and what you're getting in return.

Part of an advisor's value proposition must be that they will pay attention to you, which includes

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responding to issues in a timely and meaningful fashion. Again, insist on clarity. The advisor should provide a clear communication plan that includes the frequency and type of contact with you, as well as a schedule for portfolio reviews.

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