

4 Questions to Ask When Interviewing a Financial Advisor

Ask these questions during your initial meeting with a Financial Advisor.

1. Who will I be working with?

Advisors either work in teams or they're solo with their clients. When it's a team, you may not have a specific person you'll be working with. That's NOT what you want. You want to have a primary advisor who is your primary contact and knows your situation without your having to rehash your story each time. You want to be able to interview that advisor, get to know him, and to be comfortable with him. Avoid a situation where you'll be passed around.

2. How many clients do you currently work with, and how many do you hope to max out at?

The important number is their "max out" number. If their max capacity is:

- < 100 = A good indication he has time to really dig in and work closely with you
- 100-200 = You want to ask more questions
- 200+ = He is likely a Bone Collector*, and may not have time for you. Walk away.

3. If we started working together tomorrow, and a year from tomorrow, I told you I was diagnosed with a terminal disease and was given 2 months to live, what are the first two things you'd do?

You are looking for someone who is a holistic planner. If he's done his job right, your advisor should've helped to review your estate plans in the 12 months you're together. And, if you've done your job right as a client, you should've listened and followed his advice. Thus, if you had told him you only had 2 months left to live, his reaction should be that all primary estate pieces are in place and that only details may need to be reviewed. His reaction should be focused on you, not tasks. He should want you to spend your remaining days with your loved ones and that he'd take care of the details of your estate. He may ask for a meeting with your family, if that hadn't happened already. Be wary of advisors who are too task-focused in this hypothetical scenario.

* Take a look at www.r1t1.com/resources/BoneCollector

4. Choose One (or more):

- Tell me the difference between a CRAT and a CLAT? (estate)
- How is the Kiddie tax calculated? (tax)
- What's the benefit in holding asset titles in Community Property (where applicable) vs Joint Tenancy? (investments)
- How many days can I use my own rental property before I lose the ability to write-off all rental expenses? (tax, insurance)

You want to find out whether this person is a Bone Collector or is a Real Financial Professional who will look at your situation holistically. To do this, ask some technical questions that more Real Financial Professionals are likely to know, and Bone Collectors are less likely able to answer. Being able to answer these questions is an indication that they may have done some work in real financial planning for their clients. This is what you want. If you get a blank stare, it's a good sign to walk away.

(Remember, even some Bone Collectors* may know the answers to these questions, and likewise, even CFP® professionals may be rusty with these technical questions. But being able to answer these questions is an indication of the recency of their work in real financial planning)

Here are some additional questions you can use to get more insight into a financial advisor. None of these are make or break questions, but instead, they should give you more context into the advisor as a person, their values, and character.

<p>Why did you become a financial advisor? (character)</p> <p>Look for words like passion, love, heart, desire, teach, care. If this is a job and a stepping stone for them, you should weight that in your decision.</p>	<p>What is your investment philosophy and approach to planning? (philosophy)</p> <p>This will provide some additional insights you can use for evaluation.</p>
<p>Tell me about your conflicts of interest. (general principles)</p> <p>You want specifics. All Financial Advisors have conflicts of interest. Even advice-only fiduciaries have conflicts of interest. The question is, can they articulate them and be transparent about them. If you catch him off-guard, he may be too new in the industry, or doesn't have a firm understanding of the financial advice industry.</p>	<p>What happens when we stop working together? (general principles)</p> <p>There should be a process for terminating a client relationship that is closely followed, and he/she should be able to articulate that. There also may be fees that the custodian may assess that the advisor should be able to tell you about.</p>
<p>What is your fee structure? (fees)</p> <p>You are looking for a clear picture of how and how much you pay to work with this advisor. If the fee structure is too complicated to articulate or understand, this is a red flag.</p>	<p>What sales quotas do you have? (behavior)</p> <p>There is nothing inherently wrong with a business with sales quotas. What you're looking for, however, is transparency, and your awareness that recommendations to you may be influenced by their sales quotas.</p>
<p>How do you get paid? (behavior)</p> <p>Please note that this question is not about the fee structure. This question is about how the advisor is compensated. There is nothing inherently wrong with the advisor getting paid by mutual fund companies, nor getting compensated with commission on life insurance or annuity sales. What you are looking for is their transparency in articulating this, and your awareness that they may be influenced to make recommendations based on their compensation.</p>	<p>How often do we communicate? (process)</p> <p>However you and the advisor agree in the frequency of communication, that's the way it should be. You also want to be clear on whether you can reach out to the advisor at any time for any reason.</p>