In advisors we trust, but not in blind faith

Interview a few

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Neil Gross, a lawyer at Carson Gross Christie Knudsen in Toronto, knows all about investments gone awry. That's because Mr. Gross represents clients who sue their brokers for bad advice.

The most common complaint he hears is "suitability" and concerns the investment an advisor buys for a client does not meet their objectives or investment plan. "The investor doesn't always know until too late that the investment was too risky," he says.

Communication is important, especially at the outset of the relationship. "The best thing people can do to protect themselves is make sure your objectives are clear in your own mind and clearly communicated to you broker."

Complaints about brokers are not new. The Investment Dealers Association of Canada, which regulates investment professionals licensed to sell securities, notes in its most recent annual report (2002) that it received 1,073 complaints.

Those included unsuitable investments, unauthorized trading, bad service and misrepresentation. All are things that could be nipped in the bud by setting tighter rules and delving deeper into an advisor's credentials, as well as your expectations.

There are key questions investors should ask financial advisors at the start of the relationship. These cover everything from their level of expertise to how the relationship will work and the investment process. Here are some questions to ask:

What should I expect from you and your firm? At the outset, investors should research the advisor and the firm to which they are thinking about entrusting their money. Frank Zeppieri, a chartered accountant and certified financial planner at the Investment Planning Counsel in Thornhill, Ont., says it is critical investors understand not only their expectation of the relationship but the advisor's view on how it will work. Investors need to understand what the advisor can and can't do, he says. "Some clients have unrealistic expectations about what a financial planner can do. Some may think you have discretional asset management authority when you don't."

How do you see us working together? Brendan Caldwell, president and chief executive of Caldwell Securities in Toronto, says the client-advisor interaction must be "viewed as a partnership." To make sure it succeeds it's important to "understand each other and really communicate. In tough markets, two heads can be better than one."

What financial information do you need to help me achieve my goals? Mr. Zeppieri says "a lot of clients don't like to reveal any details about their current financial situation, which makes it difficult to advise them. It's hard to develop a financial plan or strategy if you don't have all the details."

What services do the advisors bring to the table? Find out if the advisor can give advice on topics other than investments, such as taxation, estate planning and insurance.

How often and in what manner will I be contacted? Set out the rules of the game: You decide whether you will talk daily, weekly, monthly, quarterly or annually and how you would like that contact to be initiated -- by phone, e-mail or letter. Also, establish when you will conduct an annual review of your portfolio.

Have you ever had complaints against you? If so, why and how were they resolved? Mr. Gross says while it may seem "impolite," investors need to know their broker's track record, not only in performance but in terms of employment history, customer service and compliance. Investors can search the IDA discipline database at www.ida.ca.

The database only provides access to information about whether a hearing was called over an allegation. It does not include complaints. One flag to watch for, Mr. Gross says, is whether the broker has moved around frequently. "If you have a broker who has moved from firm to firm you have to wonder whether it's because they're seeking better opportunities or because they're running from problems."

As for investment philosophy, there are several questions that need to be asked:

What types of investments will you recommend and why? Mr. Gross recommends you "listen carefully to see if the explanations are understandable."

How much risk do you think a person in my circumstances should should take during the next five to 10 years?

"You don't necessarily have to do what the broker suggests, but what they tell you may reveal a lot about the broker's attitude towards risk," Mr. Gross says. "Every time an investment is recommended to you make sure you ask how that investment corresponds to the risk factors you've outlined."

Is what I am doing working as expected? Adrian Mastracci, an advisor at KCM Wealth Management Inc. in Vancouver, says investors cannot afford to be shy. Ask if things are on track. If not, demand to know what needs to be changed, he says.

What is the total cost of purchasing, holding and selling an investment inclusive of all fees and charges, such as management expense ratios? Money is an issue that should not be danced around, Mr. Mastracci says. "Investors don't really understand the cost of investments, so ask." Find out if the advisor has any conflicts of interest they have not disclosed.

What should I be thinking about at this stage in my life? Investment decision are affected by life cycles, Mr. Mastracci says. Some investors are just starting a family while others are putting their children through university. Or some are in the latter stages of saving for retirement.

"Sometimes people can't appreciate [the length of time] till they retire and the concepts are foreign to them because they are so far into the future," he adds.