How to Interview an Investment Adviser

[Editor's Note: This is a guest post from Aziz Lalljee, the Co-founder and Co-CEO of [Finom](), a start-up company based in Chicago that provides online information about various financial advisers, attempting to match investors up with advisers who would be a good fit. All rated advisers are independent and fee-only fiduciaries. Like this one, the site and its services are free to investors, but it obviously isn't free to the advisers who pay referral fees. Although I have covered this subject before, I thought it would be interesting for readers to see how a company that actually rates advisers thinks you should choose one. At this time, I do not have any financial relationship with Aziz, although I have offered to sell him advertising on my [recommended financial advisors]() page.]

Hiring an investment adviser is a deeply consequential life decision. It can materially affect the security and size of your retirement assets, and your ability to anticipate and navigate major life events. You should interview a few advisers before you hire one. But what exactly should you talk about?

You don't need to know much about investment management to conduct a competent interview. You just need to ask a few, pointed questions, and follow-up with your specific circumstances and goals, to have an informed, and informative, conversation.

Who and what are they?

This applies to both the firm and its representative.

The firm: Is it a registered investment adviser (RIA), a broker-dealer, or neither? And is it independent or affiliated with a large bank or wirehouse? (Most investors should use an independent, fee-only, registered investment adviser because they are governed by a fiduciary, rather than a suitability standard.) Then ask about the firm's nature and composition: team size and breadth; number and type of clients; and how the firm communicates and works with clients. And if you're not given copies of the firm's ADV Brochure and their Compliance Manual, ask for them; even if you don't find them particularly useful, this will set the right tone for your meeting.

The representative: What degrees and certifications does he/she have? What is his/her financial planning and/or investing background? And does he/she have a clean regulatory record? (For an advisory firm's representative, look here; for a broker-dealer's representative, look here.)

What exactly do they do?

Advisers are not created equal, and perform a wide range of (often non-overlapping) services. These divide into three broad areas: investment planning (usually coupled with asset allocation); asset management; and auxiliary services. Briefly: asset allocation is the process of allocating your investable wealth into different asset classes (stocks, bonds, alternatives, etc.) based on your financial circumstances and goals; asset management involves dividing your investments within each asset or sub-asset class among individual securities, funds, or managers, and managing them through time; and auxiliary services include financial planning, tax advice, estate planning, charitable planning, business consulting and risk mitigation, retirement plan design and management, and legal and accounting services.

[Editor’s Note: If the adviser follows the typical low-cost passive investing strategy advocated on this site, the asset management portion of service is exceedingly simple. Asset allocation calls for 10% of the portfolio in small value stocks? Use 10% of the portfolio money to buy a passive small value fund or ETF from Vanguard, iShares or DFA. Done. If, however, the adviser is trying to pick skilled mutual fund managers (good luck) or individual securities himself (even more luck,) that’s obviously a much more complicated process. In my opinion, the simple fact that the adviser thinks he can do that would disqualify him from consideration, whether he is listed on Finom or not. In my opinion, the bulk of the value provided by an adviser to most physicians is in Mr. Lalljee’s “auxiliary services” category.]

You need to understand (a) exactly what services you need (or might need), (b) whether the adviser provides these services, and (c) in what form these services are provided – in-house or outsourced, ongoing or one-time, etc.

Ask for samples of their work.

This is trickier than it sounds, and is driven by the specific services you need.

If you need investment planning, ask for sample plans for a variety of risk tolerances and client types. Then ask about their process for determining your specific risk tolerance and target cash flows. Finally, ask how changes in your circumstances and goals will change their target asset allocations for your investments.

If, like most people, you’re looking for an adviser to both plan and manage your investments, you need to grasp how the adviser constructs portfolios and manages them for clients like you . Ask for portfolio snapshots and performance histories, after fees, for a few such clients who match your investment profile or risk tolerance (with their identifying information redacted) . Don't be satisfied with model portfolio returns, especially using back-tested data. You want to see the actual performance of actual investors, but be especially wary of firm-wide performance numbers. Use these reports to as a starting point to discuss their investment philosophy and management style, and learn how they approach subjects like diversification and tax efficiency. Ask about any funds or other managers they might use, and their process for selecting them.

What and how do they charge?

Once you understand the adviser's practice and the service(s) you're buying, you can make better sense of their fees. Both the level and structure of compensation is important, i.e. how much, and how, do they charge? Are they fee-only (as a percentage of your assets under management, hourly rate, or annual retainer)? Or do they receive commissions for products they buy for your account? Or both? Are there any other minimum or hourly fees applicable? Advisers typically offer both investment advisory and asset management services for a single fee as a percentage of assets under management, and 1% – 1.25% is considered standard for separately managed portfolios.

[Editor's Note: While 1%+ might be "standard" it may also seem ridiculously high once you take a look at what good advisers are actually charging. Fees for asset management can be as low as $75 an hour, $1000 per year, or 0.37% of assets under management (or less for a robo-advisor.) Rather than assuming that any AUM fee or hourly rate is "fair," I recommend you actually calculate out how much you are paying annually so you can compare apples to apples when comparing advisors. If an

advisor charges $200 an hour and does 20 hours of work in a year, that's exactly the same as an advisor who charges a flat annual retainer of $4000 and an advisor who charges 0.4% on a million dollar portfolio. Fees matter, and as Jack Bogle likes to say, "You get (to keep) what you DON'T pay for." Finom offers an interesting discussion of [whether advisers are worth their fees]() on their site.]

Fast-forward six months…

…and you – inherit a small fortune; get divorced; become disabled; or the S&P 500 crashes by 30%. How will your adviser handle your investments through a major market or life event? How will he communicate with you? Will he prevent you from being hasty with your savings, especially during tough times? Verbally run through a few such scenarios with a potential adviser, and see how carefully, sensitively, and creatively the adviser answers them.

What do you think? What process did you go through when hiring your adviser? What do you tell friends when they ask you how to choose a financial adviser? Comment below!