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Royal flush: 15 questions to ask a financial adviser now

by **Jonathan Hoyle** on May 3, 2018 **10**

The Royal Commission has highlighted some appalling financial advice practices. Transparency, greater professionalism and higher standards are required. Corruption, cronyism and incompetence must be weeded out. A torrent of new regulations is a racing certainty, although how that will look is still to play out.

Hopefully, we will look back in a few years and say the Royal Commission was the best thing that happened to the financial planning profession. Financial planning matters. It matters because quality advice has the power to transform lives. It matters because poor, unethical advice has the power to destroy lives.

Start with two quick checks

How do you find a good financial adviser from more than 24,000 licens November of 2017, I wrote this article for Cuffelinks on the ***25 questio adviser***. This is an updated version in a post-Royal Commission world.

First, as before, start with the pamphlet, entitled ***Questions To Ask A*** industry regulator, ASIC.

Second, conduct a search of your adviser on the **ASIC register**. This pr and records any banning orders or disqualifications made against ther

Then, insist on getting answers to the following questions in writing. Th adviser, but they will reduce the odds of a dud or a crook.

The questions to ask

1. Who owns your business?

Most advice firms are owned by a handful of individuals. Be wary of th especially when those institutions also manufacture financial products, encouraging massive conflicts of interest.

2. Who provides your licence (AFSL) to operate?

You might prefer firms who have their own licence, but there are plenty of shoddy independent operators (as the RC showed), and there are plenty of excellent advice firms who are licensed by a major financial institution. You want to learn about potential conflicts of interest that might compromise your best interests. The one key advantage of being self-licensed is that these firms are free to recommend a broader universe of funds and insurance products.

3. What percentage of my portfolio is invested in funds owned by your licence provider?

It should be close to zero.

4. How many insurance providers are on your Approved Products List?

It should be a lot more than one. This gives sufficient diversity and an ability for an adviser to add value through choosing the most competitive policy.

5. Is there any connection between the investment platform you have chosen and your licence provider?

There might be. This may be ok, but it's a potential conflict as this may be the only platform offered to you as a client. Ask why they selected that particular platform for you.

6. May I see your last Compliance Audit please?

Every adviser is audited annually by an independent team. Ask to see the last three audits as they could be quite revealing.

7. How do you charge your clients?

Fees should vary depending on the job you want done. For specific project work, an adviser might bill by the hour, but not for ongoing advice. Hourly charging encourages inefficiency. Nearly all advisers will increase their fees in line with the assets to manage, but the relationship should not be linear. Managing $2 million is not twice as involved or complex as managing $1 million. Charging clients a fee-for-service is becoming more popular and, in our opinion, will eventually replace percentage-based fees.

8. Are your fees negotiable?

We believe fees should *not* be negotiable. Clients should be charged by clients should not subsidise new clients (unlike certain cable TV provid those with superior negotiating skills receive favourable terms.

9. Do you receive an annual bonus?

Most advisers are paid an annual bonus for a job well done. Nothing c that the bonus is not solely driven by introducing new clients to the fir service, a spotless compliance track record, a team ethic and a commit training.

10. Can you tell me about your conflicts of interest, orally and in w

These must be disclosed orally and in writing. Ask to see their Conflicts are inevitable and may not be a problem, provided they are disclosed.

11. Do you pay referral fees to generate new clients?

Many advisers pay referral fees to lawyers and accountants to refer new clients. Provided this is fully disclosed, there is no conflict. It's more an issue for the referrer than the adviser.

12. What are your professional qualifications?

The Certified Financial Planner (CFP) is the gold standard in the US and Australia, but there is differ between those CFPs that were 'grandfathered' and those that were earned by hundreds of hours of hard slog. The CFP is now a difficult examination to pass. It doesn't guarantee great advice, but it reduces the odds of engaging a dud. Make sure to ask for the qualifications of the Investment Committee too. The **Chartered Financial Analyst** (CFA) is the certificate of excellence for portfolio analysis.

13. Who manages my money?

Financial advisers are not money managers. They are not trained to do this. Look for a professional Investment Committee run by an experienced CFA.

14. How do I exit this relationship if I don't like it?

There should be no lock-ins. Financial advice firms are not mobile phone companies. Account portability is essential.

15. Can you provide me with testimonials of clients in a similar situation?

Always ask for this. We would recommend checking out a website called **Adviser Ratings**. It contains testimonials from the adviser's clients and a rating.

Choosing your financial adviser is a significant decision

We suggest asking people in your life whose financial opinions you respect. These might be your accountant or an educated friend. And meet plenty of advisers during your due diligence. A good adviser adds value. We hope this list will help you in your search.

*Jonathan Hoyle is Chief Executive Officer at **Stanford Brown**. This article is general information and does not address the circumstances of any individual.*

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