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## Questions to Ask Your Financial Advisor

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### Introduction

The relationship between you and your professional advisors (of any profession) should be an easy two-way communication and trust relationship, with your advisor being a good listener to your concerns and placing your interests first (before their own financial rewards).

Of course, the first step in finding a financial advisor is to meet with at least three professionals to discuss your needs with them. This will require you to be open about your savings, income and your expectations. You should also ask them the questions below and expect forthright answers

Over time, you will build a relationship of confidence with your advisor, but I suggest you should never give 100% trust to anyone to handle your affairs without your continuous involvement and full understanding of the risks. After all, you are taking 100% of the risk.

I believe your financial advisor should be proactive and provide you with the following information without being asked. However, if not, you should ask these questions and then reach your own conclusions as to whether you are talking to the right advisor. **MOST IMPORTANT** – Remember to ask yourself this: “Whose money is it and who is taking all the risk of losing it?” That person needs to take all the blame for losing money, and gets the credit for making money. **YOU** are that person; you are making the final decisions (based on their recommendations) on what they do with your money.

Most people are too shy to ask these questions. You shouldn't be - it is your money. But I admit, it can be a difficult conversation, but, what do you have to lose? If your advisor is upset, it is time to lose them anyway. However, try this, if need be, "I have a number of questions for you based on advice from government and financial planning web sites. Do you mind bearing with me as I work through them?" After that, if you wish, you can give them a copy of the pages of this article containing the questions (pages 3 and 4), and ask, "Could we work through this list together?" Depending on whether you are new or existing customer, some questions will not be applicable.

This article is in three parts. I first direct you to the Government of Canada and FP Canada web sites that provide recommended questions. In Part 2, I provide a list of suggested questions, followed by Part 3 with details on the reasoning for some of my questions that are supplemental to those provided by the above organizations. The Government of Canada and FP Canada readings should make you feel more confident that you are justified asking these questions, and that your planner should be willing to answer them, especially given the amount of money you will be putting at risk. I would like you to compare the time you spend looking for a new kitchen appliance costing \$1,500, including looking at price comparisons, warranties and the ability to obtain local service, compared to the time you spend investigating an advisor to whom you are going to give thousands of your lifetime savings (and you should check out their warranties too).

# Questions to Ask Your Financial Advisor

## Part 1: Government of Canada and FP Canada Overview

For this article, I first make reference to a Government of Canada suggested list of questions on their website for Choosing a Financial Advisor. This should diminish your concern or your advisor's concern that the questions have a bias against them. See the questions by the Government at <https://www.canada.ca/en/financial-consumer-agency/services/savings-investments/choose-financial-advisor.html#toc4> at as I quote here. However, note that these are included in the detailed listing in Part 2 below.

*"Ask a financial planner about the following:*

- what are their education and professional experience*
- what's their certification or designation*
- if they're registered with a securities regulator*
- if they're licensed to sell any other products*
- have they ever been disciplined by a regulator*
- have there been any restrictions, terms or conditions placed on their registration approval*
- are they currently under investigation by securities regulators in Canada*
- how long the firm they work for has been in business*
- how long they have been with the firm*
- what products and services they offer*
- how they decide on appropriate investments for their clients*
- how they'll help you reach your goals*
- if they're paid by salary, commission or other fees*
- how often you'll meet*
- how they'll inform and update you*
- references from previous clients*

For your reference, FP Canada, the governing body for the CFP designation, also has a list of questions for you to ask. See [this FP Canada site](#) if you still need to feel more confident that you are justified asking questions. They recommend these ten questions:

- Why should I work with you?*
- How does this partnership work? How do we build trust?*
- Will you be the only professional working with me?*
- How do I know you're right for me?*
- How much do your services cost?*
- What type of client do you usually work with?*
- Have you ever been disciplined for professional misconduct in your career?*

## Part 2: Specific Questions to Ask Your Financial Advisor

Certain questions will not be applicable if

- (a) this is your first interview meeting with an advisor, or
- (b) this is a regular review meeting with your advisor, unless you have never asked them before.

- **Credentials –**

- ☐ What education do you have to provide investment advice?
- ☐ What do your credentials cover – investing only, insurance only, financial planning or other?
- ☐ Do you belong to an association that has a Code of Ethics? What is it?
- ☐ Are you required by your code to act in my best interests, selling me the best investments for my circumstances regardless of the related commissions and fees?
- ☐ What types of products are you licensed to sell?
- ☐ Have you ever been disciplined by a regulator?
- ☐ How long have you been in business?
- ☐ Are you able to provide me with any client references?

- **Services –**

- ☐ What services will I receive?
- ☐ Will you prepare a retirement plan for me, and will you review my progress each year?
- ☐ Do you put together an investment profile for me to guide my future investing (some call it an Investment Policy Statement)?
- ☐ Do you have a minimum dollar amount that I need to invest with you, and if so, why?
- ☐ Will you take the time to meet with me and explain my first account statement, pointing out the most important features to me so I can understand it going forward?
- ☐ How often will you meet with me to review my account, review my returns, and recommend changes to ensure my portfolio is in line with my retirement plan and investment profile?
- ☐ When changes are to be made, will you advise me first and ensure it is in accordance with my profile?
- ☐ If there are significant impacts on one of my investment holdings because of the economy, government policy, investment manager changes, company reorganizations, etc., will you call me to discuss whether changes should be made to my holdings?
- ☐ For the “conservative” part of my portfolio, how do you define conservative – how much loss (and, if any, for how long) do you think is acceptable when a product is conservative?
- ☐ What choices do you have to choose from for investment products? Are you limited to your own company’s products or can you sell others if they are better? If you are limited to your own company, then how do you ensure I get the best products for my portfolio?

- **Cost of Investment Advice –**

- ☐ Unless you only sell mutual or segregated funds, I understand that there are two ways to pay fees – one is by paying a commission each time I buy or sell, and the other is a percentage fee based on the value of my investments. Which is in my best interests and why?

- ☐ How do I pay the fees – are they charged to my account for me to see, or deducted from my investments (e.g., mutual funds) without me seeing the actual amounts? Will I receive an easy-to-understand invoice each time you bill me setting out the services you have provided to me, which I then pay you directly? If you automatically take your fees from my investments, will I receive a billing setting out the amount each time this happens setting out the services provided by you?
- ☐ What would my estimated fees be for next year (in dollars) using both approaches?
  - ☐ I know you need to be paid, and I want you to receive a fair payment. How much of the fees that I pay will go to you personally?
  - ☐ Do you receive your fees as commissions when I buy or sell, as ongoing fees every month or year, as periodic bonus or wage payments, or how?
- ☐ Do I still get charged fees if I am not meeting the goals and targets that you help me set? In other words, do I pay you if I do not make any money, and if so, why?
- ☐ What did I pay last year in fees and commissions in total dollars, and how much did you receive of this total?

• **Benchmarking –**

- ☐ If I hire you, should I expect that my rates of return will be better than market averages and/or better than returns on an Exchange Traded Fund that tracks an index?
- ☐ How will you measure my performance to ensure I am meeting my goals, and how often will this measurement be done and reviewed with me?
- ☐ Will you provide me with benchmark comparisons with indices during our reviews, and on what considerations will you recommend changes to my holdings?
- ☐ How much did I make on my investments last year?
- ☐ What about an average over 3, 5 and 10 years (if applicable)?
- ☐ How did my returns compare to the benchmark average of all securities for each type of investment I own?

• **Bonds vs. Guaranteed Investment Certificates (GICs) –**

- ☐ Should I own bonds or would I be better off buying guaranteed investment certificates (or similar term securities, which may be called term deposits, certificates of deposits, guaranteed income annuities, etc.), and why?
- ☐ Which way do you think interest rates are going, and how will that impact my bond or GIC portfolio?
- ☐ What other factors affect bond values, and how will they affect risk and return?
- ☐ How can I maximize my interest income?
- ☐ Do you charge fees for investing in securities that only pay interest, and if so, will you still work with me if I make these investments at my bank where there are no fees if I can obtain comparable interest rates?

• **Equity, Balanced and Bond Funds (if applicable) –**

- ☐ What is the fee on each of my funds?
- ☐ Why should I own a balanced fund instead of separate equity and bond funds?
- ☐ If the balanced fund fees are higher than a bond fund fee, would it be better to own separate equity and bond funds to reduce overall fees?

- ☐ What did I make as a rate of return on my funds last year?
  - ☐ In particular, what were the returns on my balanced and bond funds last year after deducting the management fees?
  - ☐ For my balanced fund, what portion of this return relates to equities and how much relates to bonds, i.e., did I make money on both components after fees?
- ☐ When the markets are down, whether stock or bonds, will I have money to withdraw for my needs without losing money? How will that work?

### **Periodic Review Meetings**

At your regular periodic meeting with your advisor, they should review the performance of your account and recommend any changes considered appropriate. The number of meetings you have each year should be enough to make you feel comfortable in knowing what is happening in your account, and to know if your targets are being met.

Typical questions you should consider at these meetings, if not automatically covered by your advisor would include:

- ☐ How has my progress been in relation to the retirement / investment plan that you prepared for me? Am I ahead or behind of our projections, and why?
- ☐ Can you explain my last account statement for me to ensure I understand what everything means?
- ☐ If applicable and you own funds as opposed to individual stocks: - Can you review the Fund Facts sheet for any new investments that were purchased with me and explain the various details?
- ☐ How did my individual investments and my account perform last year in relation to their applicable industry averages and benchmarks? Were they better or worse, and why?
- ☐ What was the total of my income and my market value gains last year?
- ☐ What were my total costs in dollars last year for my account, including those built into the investment funds and those paid directly from my account?

## **Part 3: Background and reasoning for some of the above questions, and information you should know**

### **1. Cost of Investment Advice**

If you have a fee that is charged each time you buy or sell, or a fee that is charged monthly or quarterly to your account, you will know your cost by looking at your statements. You just need to take the time to look it up. If you own mutual funds or Exchange Traded Funds, these fees will not be obvious unless you read the related documentation or search for the information on the Internet. Ask your advisor how much you are paying for the MER (Management Expense Ratio) of each fund; he or she will have it readily at hand. Ask for your fees in dollars, not percentages —1% does not sound like much but if you have \$1 million invested, it is \$10,000... that sounds like a lot more to me. If your investment made 4% before fees, and you paid 2% in fees, you have paid 50% of your profit to your advisor, which is worth knowing. Finally, if you are consistently losing money, any fee is expensive.

Are you getting value for your money? Your advisor, and his/her team, should be adding value to your net worth. To be fair, your individual advisor will likely not be receiving the total fee. Out of an average Canadian equity

mutual fund fee of about 2.3%, your adviser will likely be receiving about 1%, with the remaining going to the fund managers who do the buying and selling within the fund. However, it is the total cost that is important to you, although it is your individual broker who is paid to provide you with your answers. If you are paying high fees and receiving low rates of return over a period of several years, you need to do some comparison shopping.

Feel free to ask, "How much of this fee do you receive?" "You do not pay me, my company does that" is not the answer you should expect. While some advisors are paid by salary, most receive commissions, trailer fees and bonuses (even for salaried individuals) based on their sales growth and volume of investment assets under their management. Employees working for banks typically receive no commissions or trailer fees, and so the answer is "no" if asked if they receive such amounts; however, when asked if they receive bonuses based on new business, the answer will usually be "yes."

If you own mutual funds and are told that they do not receive any commissions or trailer fees, ask if you have "F Class" funds. F Class funds have lower fees because they do not pay trailer fees to the advisors. If you do not have F Class funds, ask who gets the trailer fee (typically about 1% on an equity fund). And while some hourly based brokers receive no commissions, trailer fees or bonuses, they may receive a referral or finder fee. For example, if they send you to a particular investment salesperson, they may receive a one-time payment from that salesperson, often based on the amount of sales they make to you. When I was operating my accounting business, I was once offered 25% of a life insurance agent's first year commission for any referrals if the agent made a sale that exceeded \$x million...he found it hard to accept that I said no because I thought it was unethical (and at the time, it was a violation of my accounting code of conduct). I still refuse all commissions, referral fees, etc. because it would introduce a bias into my decision making, and that would not be in my client's best interest, or certainly raise questions around my objectivity. However, if your tax preparer or accountant makes a referral to another professional, ask two questions: Are you recommending this person because you know they do good work? Do you receive any payments or gifts when you make these types of referrals?

For more about fees for all types of investment products, and what is reasonable, have a look at this ["Fee Tree" by Steady Hand Investment Funds](#). It is just their opinion, but I think it is reasonable.

Advisors and financial planners who are paid by the hour for helping you and who do not sell products (such as me) should also be asked if they receive any commissions or referral fees if they recommend you to other advisors for product purchases. As noted, I do not. All professional financial planners will give you your answer (which I think should be in dollars as well as percentages), or, at least, are required by their professional code of conduct to do so. If they do not belong to a professional organization, you should be concerned about the adequacy of their training, education and their requirement to abide by a code of conduct, which becomes another question to ask them.

If you have a "buy and hold" investment strategy (as opposed to a frequent buy/sell speculative type of approach), the time required by your advisor may be much lower. This is because they are not constantly looking for opportunities for you to make money by buying new promising stocks and selling existing underperforming shares. You should only own solid blue-chip investments, which typically do not need much monitoring. Consequently, the type and amount of fee you pay should reflect the different effort required by the advisor. Furthermore, if you own a lot of fixed income securities that are only replaced upon maturity, such as fixed term bonds and GICs, monitoring is minimal, and your advisor may get paid by the issuer upon each purchase (e.g., 0.25% of the principal). Hence, I suggest that you may ask not to pay fees on this portion of your portfolio, or a very minimal fee. If you have a mixed portfolio of fixed income and equities, and you pay a flat percentage fee on the total portfolio, you need to look at your costs a bit differently. The fee may be eroding your interest income on your fixed income securities. Ask your advisor what you would be paying if they only managed the equity part of your portfolio, and excluded the bonds and GICs. I expect that would be a much higher rate, and you can look at the dollar cost of that revised fee and compare it to your equity performance to see if it is fair. For example, if you are paying 1.5% on a portfolio with 50% GICs and 50% equities, I suggest that you should be paying negligible fees on the GICs. This means that you are really paying 3% on the equity portion. Now compare that 3% fee to how much above average you are making on the equities and decide if you have the right advisory



arrangement.

I admit my bias because I charge only based on time. Hence, I believe the time spent with you and working directly on your account should be reasonable for the fees you are paying. Many advisors are paid based on the value of the investments you own regardless if they make you money or not, and unfortunately, you have little choice with this if you cannot invest for yourself; it is a very common practice. My personal opinion is that you should be paying for time spent by all staff working directly on your account. However, time for watching the market, office administration, continuing education, etc. are overhead costs that should be built into the fees. For example, if you meet with an advisor for 6 hours per year, and they spend two hours a month looking at your account, that is 30 hours. If you are paying \$10,000 per year in fees, that is \$333 per hour and likely reasonable. If you are paying \$50,000 per year, that is another question – unless they are making you more than \$50,000 in income that you would not otherwise make. Any advisor who suggests they are working for you every day may be lacking in trustworthiness.

Bottom line — understand how much you are paying in fees, what services you are receiving for those fees, and consider what value you are receiving for the cost.

## 2. Benchmarking — Measuring investment performance

Each type of investment you have, or your portfolio as a whole, should be compared to a benchmark to see if your results are average, below average or above average. Knowing this will help you decide if any changes need to be made and if you are receiving good investment advice. Making 10% on your investments may sound good, but if the market average for that type of security was 20%, you did not do so well. On the other hand, if the market average was a negative 10%, and your return was a negative 5%, you did well.

Your portfolio rate of return should be calculated after deducting all fees that are charged to you for investment management. Typical benchmarks that could be used include the following, for either your security portfolio as a whole or for individual mutual funds:

Canadian stocks portfolio - S&P/TSX Composite Index

U.S. stocks portfolio - S&P 500 Index

Canadian bond portfolio — FTSE TMX Canada Universe Bond Index

International equity portfolio — MSCI EAFE Index

However, some brokers will use narrower indices to more closely match your portfolio, or may use an Exchange Traded Fund that tracks an index as an appropriate measure. Where you have a portfolio or mutual fund holding securities of different categories, such as Canadian equities, U.S. equities, Canadian bonds, etc., then your advisor will calculate your personal benchmark by blending appropriate indices in the same proportions. For example, a mutual fund with 60% Canadian equities and 40% Canadian bonds might be benchmarked against a measure of 60% S&P/TSX Composite Index and 40% FTSE TMX Canada Universe Bond Index. If your mutual fund is compared to a group of similar mutual funds, then you are not comparing it to the open market before fees. In other words, if the entire group of mutual funds, after fees, were above or below average, you would not know how much higher or lower than average they were. Out of interest on performance of the mutual fund industry, you may wish to visit the [S & P Dow Jones Indices web site](#) and look at the SPIVA® Scorecard. The Scorecard shows how many mutual funds over and underperformed their benchmarks. Keep in mind that a mutual fund that has a goal of beating the market average with a fee of 2.3% must beat the market by that much just to break even. Of course, that is what you are paying the manager to do – make you more money than the average, which you could achieve yourself to within 0.50% by buying an index tracking Exchange Traded Fund.

Want to know more about calculating your rate of return and benchmarking? MoneySense magazine has some good information on this topic - visit <http://www.moneysense.ca/invest/figure-out-your-rate-of-return> and <http://www.moneysense.ca/invest/how-you-join>. In addition, the Investor Education Fund, an initiative of the Ontario Securities Commission, has information and a benchmark calculator at <http://www.getsmarteraboutmoney.ca/tools-and-calculators/portfolio-benchmark-calculator/portfolio-benchmark-calculator.aspx>.

### 3. Bonds vs. Guaranteed Investment Certificates (GICs) — Which are better?

The reason for this question is to ensure you understand the differing risks between fixed income products. One to five-year GICs issued by a chartered bank, for example, are locked in for a specific term, and are guaranteed by the Canada Deposit Insurance Corporation for up to \$100,000. This is an aggregate limit for all of your GICs issued to you by that institution, not the limit for each GIC. (You should investigate further to see the precise rules and limits.) Credit unions and insurance companies also have similar coverage. In contrast, while government and corporate bonds also have fixed terms, they can be bought and sold daily and generally have no insurance protection. While both types of securities have fixed interest rates, a bond can have a capital gain if market interest rates decline. Bonds can have a capital loss if the bond issuer, such as a corporation, defaults or if market interest rates rise. Demand for bonds can change for other reasons, such as the safety of Canadian bonds versus other nation's bonds, or the risk of default on corporate bonds versus the risk of default by a government. Such factors may increase or decrease bond values. How are bonds doing now and in recent years. See the [S&P Dow Jones Indices web site](#).

The reason for the impact of interest rates may be best explained by an example. Assume I own a bond for \$100,000 that pays 2% interest, which is the going market interest rate. If you are looking to buy a bond next year for \$100,000, and I am looking to sell mine, we can do a deal, and you would pay me \$100,000. However, assume that interest rates declined to 1% over that year. Now, you can only buy new bonds paying 1%, but mine still pays 2%. You would be willing to pay me more than \$100,000 so that you can earn more interest; if you pay me \$105,000, that will give me a capital gain of \$5,000. On the other hand, if interest rates rise to, say 3%, you will not be willing to buy my bond unless I take a discount. Why would you buy my 2% bond if you can buy a new bond paying 3%? If you are willing to buy my bond for \$95,000, I now have a capital loss of \$5,000.

GICs neither have an opportunity for gains nor the risk of losses if interest rates change. For more information on bond risks, see my article titled [Bonds and Bond Mutual Funds Versus GICs – Consider the Risks](#).

Ensure you and your advisor understand the risks of bonds versus GICs, and if you do not want to accept the risk, ask if you should switch your bond portfolio to a GIC portfolio. Of course, even with their risk, bonds still add stability and safety to your overall portfolio — they are not as risky as an equity portfolio.

### 4. Balanced Funds and Bond Funds- Are fees eroding bond returns?

With the push down and then pick it up somehow fell over somewhere and then There are some additional considerations if you invest in a bond fund or a "balanced fund." My focus will be on balanced funds, but a bond fund has similar issues. A balanced fund may be a mutual fund or it may be a pool of investments managed by your brokerage firm on which they charge you a management fee. A balanced fund will contain a mix of equities and fixed income (typically bonds). An asset allocation fund, while similar, is not the same. The manager of an asset allocation fund has more leeway to swing from nearly all equities to a high percentage of bonds based on his/her market expectations; a balanced fund manager is required to stay within certain limited allocations based on the terms set out in the mutual fund prospectus.

I like to ask, "What can I expect to make as a rate of return on my balanced fund/bond fund over the next five years after deducting the management fees?" "(b) "For my balanced fund, what portion of this return relates to equities and how much relates to bonds?"



It is the return on the bond allocation that you should understand for this discussion. Does your advisor expect interest rates to remain the same, with no other impacts that will affect the bond market? If so, your bond rate of return will likely equal the average current yield to maturity of those bonds. If we assume the average yield is 2.0%, and you are paying a 1.75% fee, then your net return is 0.25%. Compare this to a Laddered GIC portfolio where you might be able to earn 2% (which should not have fees imposed.) In such a case, you would likely be better off holding your fixed income securities outside of the fund. If your advisor expects interest rates to rise and bonds to decline in value, this would also be a choice to consider. In such a case, with a balanced fund, you would break it in two, moving the equities to an equity fund, and the bonds to GICs, an exchange traded fund, or a low fee bond fund. Keep your balance the same but in separate funds. This is even more important given some studies that show management fees of balanced funds to be just as high as those of equity funds. Of course, in a balanced fund, you are paying someone to change the mix of equities and fixed income as they think is appropriate based on all of their investors as a group. With separate equity and fixed income funds, your advisor needs to work with you and change the mix as appropriate for your specific case.

I am not telling you to do this. I am suggesting to you that it is a discussion you need to have with your advisor.

## Conclusion

Remember, **IT IS YOUR MONEY**. You worked hard to earn your money and **ONLY YOU ARE RESPONSIBLE FOR IT**. How will you replace it if you suffer investment losses? You need to take full responsibility for your decisions, and knowing the answers to these questions is one way to help you understand a small piece of the investment world. If your advisor is not forthcoming, maybe they are not putting your best interests first, and you should get a second opinion. And if they disagree with my opinion, I would be pleased to have an enlightening discussion with them - I am always interested in learning.

*Blair Corkum, CPA, CA, R.F.P., CFP CFDS, CLU, CHS holds his Chartered Professional Accountant, Chartered Accountant, Registered Financial Planner, Chartered Financial Divorce Specialist as well as several other financial planning related designations. Blair offers hourly based fee-only personal financial planning, holds no investment or insurance licenses, and receives no commissions or referral fees. This publication should not be construed as legal or investment advice. It is neither a definitive analysis of the law nor a substitute for professional advice which you should obtain before acting on information in this article. Information may change as a result of legislation or regulations issued after this article was written. © Blair Corkum*