

Questions to ask when hiring an investment advisor - Part 2 - Fees and contracts

Category : Selecting a Financial Planning Advisor or Investment Adviser

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Summary: This article provides potential advisor screening questions about his compensation methods, fees, and contract. This article is one on several on the topic of investor screening. Also, see: ->[Preparing to interview a financial planner or investment advisor](#) ->[Questions to ask, when hiring an advisor – Part 1, Background and training](#) ->[Questions to ask, when hiring an advisor – Part 3, Services and references](#) Questions about compensation methods and fees:

->How are you compensated? ->Make certain that you understand the advisor's compensation in detail. Any obfuscation, lack of clarity, or attempt to avoid discussing compensation can be a red flag. If you ask about fiduciary duties toward you and any conflicts of interest that obviously exist and the prospective advisor does not give a satisfactory answer or makes you feel awkward for asking the question, then this is a significant concern. ->For more information read The Skilled Investor's advisor compensation articles. (See, for example, [Does it matter how financial planners and investment advisors are paid?](#); see the links to additional advisor compensation articles below.) ->What is your schedule of fees? ->The Skilled Investor believes that the best advice is advice that you pay for directly and for which no third party would provide compensation. In addition, you should not commit significant funds, until you are certain that the advice is of good quality and something that you want to follow. Therefore, you should avoid entering into contracts that require you to pay significant amounts without receiving an advisory deliverable. You would not want to spend thousands of dollars to get a slick, but canned financial plan that does not fit your needs. It is better to discuss with your advisor how to break the work up into smaller parts with interim, lower cost deliverables. Once you have a better understanding of your advisor's practices, then you will know how closely you must monitor your advisor's billing practices. ->How much do you estimate that certain activities will cost me? ->How much will I be billed, and what are the forms and terms of payment? ->Will you receive any compensation from someone else for selling financial products to me? Who else will benefit from the recommendations you make to me? If you are paid commissions or receive other third party payments, how will you manage the conflict-of-interest? How can I be assured that your advice will not be skewed toward higher commission products for you? ->Ask whether the advisor will accept any payments of any kind (e.g. commissions, trail fees, referral fees, etc.) for any other party than yourself related to the work performed for you. If the answer is yes, make certain that you understand the exact nature of these payments. Be particularly aware of glib assurances that such third party compensation will not influence the advisor's judgment, because third party compensation usually does. ->If you recommend something, will I have to make the purchase through you? ->Will you disclose to me, in advance of performing further services for me, whether any of your compensation policies have changed? Questions about contracts: ->What written agreements will we sign related to our work together? ->May I have a copy of your standard agreement for review? ->If there will not be a written contract, find out why. Avoid advisors who do not use written agreements. ->Make sure that all important verbal

representations made by the advisor are incorporated into the written contract. ->Any representations from the advisor's Form ADV that are important to you should be made part of the contract. (For more information on Form ADV, see: [Online information about registered securities broker-dealers and investment advisory firms](#) There are links to additional articles about advisor regulation below.) ->Any agreement should include a detailed summary of the services that will be performed and the associated fee schedule. ->Ensure that compensation is described completely, and that the agreement states that there are no other charges. If compensation practices or fees can change during the term of the contract, you should be given adequate notice and the option to terminate the contract without penalty. ->Any third party compensation practices should be disclosed in writing. (These could include, but not be limited to the advisors policies on commissions, referral fees, consideration for order execution, soft dollar arrangements, etc.) ->Nothing in the agreement should unreasonably restrict your freedom to go elsewhere. Do not accept any unreasonable cancellation terms such as termination fees or other requirements. Either party should be able to terminate the relationship and walk away. Acceptable services actually rendered prior to contract cancellation would, of course, be payable. ->While the agreement may require you to prepay certain funds for planned work, avoid making substantial up-front payments. Certainly do not pay more than half of the total until some of the work has been delivered and you can evaluate its quality. ->Any agreement that you sign should be a two way street. If an advisor wants to sign an agreement that focuses largely upon his interests without including reasonably detailed information about the scope or quality of the work to be performed for you, this is a concern.

These related articles may also be useful to you:[Payment of Advisors](#): ->[Does it matter how financial planners and investment advisors are paid?](#) ->[Financial planner and investment advisor compensation paid by third parties](#) ->[Financial planner and investment advisor compensation paid by clients](#) ->[Fee-only compensation aligns the interests of clients and their financial advisors](#) ->[Fee-only financial planner and investment advisory groups](#) ->[The securities industry calls marketing and selling "advising"](#) ->[Many investors are not fooled by an ethically challenged securities industry](#) Regulation of Advisors: ->[Regulation of financial planners and investment advisors -- Introduction](#) ->[Checking the backgrounds of individual securities brokers and advisors who sell investments](#) ->[On-line information explaining the licenses of financial planners, investment advisors, and insurance representatives](#) ->[Online information about registered securities broker-dealers and investment advisory firms](#) ->[Finding state regulators of securities brokers, investment advisors, insurance agents, and insurance brokers](#) ->[Private certifications of financial planners and investment advisors](#) ->[Widely recognized private financial and investment advisor certifications](#) ->[Governmental and self-regulation of the securities industry](#) Advisor Fraud->[Avoiding financial planning and investment advisor frauds and scams – Overview](#) ->[Avoiding advisor frauds and scams – The "Never-do" list, Part 1](#) ->[Avoiding advisor frauds and scams – The "Never-do" list, Part 2](#) ->[Avoiding advisor frauds and scams – The "Never-do" list, Part 3](#)