



## Eight Questions to Ask Your Financial Advisor

By [Matthew Clement](#) | Submitted On February 17, 2005



I wrote an article in 2004 entitled "Eight Questions to Ask Your Financial Adviser." Five years later, the landscape has changed in many ways, while the fundamentals, being *fundamental*, have not. First, the changes:

- Thirteenth Bear Market, by my count, since the Great Depression
- Housing bubble accelerates, stagnates, then bursts
- Mortgage derivatives fail, resulting in a banking crisis that continues as of this writing
- Bernie Madoff uncovered for the largest 'Ponzi scheme' and the largest financial fraud case in history, setting a domino effect exposing a dozen (or so) other large fraud cases nationally and internationally
- The financial services industry is brought into higher scrutiny, and those within the industry work more quickly than ever to define their roles and responsibilities

It is the last bullet point I wish to focus on in this newly revised 2009 'edition' of the article by the same name. And in doing so, I will also highlight the fundamentals which remain at the center of one's process of choosing an advisor.

So how has the financial services industry changed and why? Don't get stuck on the precise distribution, but I would argue that one-third of the change has been forced, as a result of increased rules, regulations, and internal controls; another one-third in response to public demand for greater transparency and clearer processes; and the final one-third as a result of the industry's natural progression toward refinement of its roles.

I won't discuss the regulations—you can find them readily enough. Public response seems clear as well—most people simply

want to know "how it works," "what it's supposed to do," and "what it costs." As for the industry's natural progression, allow me three points of clarification:

- (1) There has been a clear transition from "commission-based" services to varying forms of "fee-based" services, or "advisory services" over "brokerage services." By charging for ongoing service rather than for any particular transaction, the belief is that the advisor's interests are more aligned over time with the client's interests.
- (2) There has been a shift in attention, from financial *instruments* to financial *planning*, with the focus more often on the intermediate- and long-term goals of the client and less often on firm-specific or product-specific strategies and systems.
- (3) Lastly, there has been a tendency toward specialization over generalization. In this respect, the industry has recognized that the complexities of a family or a business are as real as the complexities of the market, and so various specialists will be needed, along the way, to assist in providing a full and complete level of service.

It should be clarified that in each of the three areas, there remains a great deal of variety and movement; some of it for positive flexibility and some of it borne of disagreement over which methodologies work best. Among fees, there are plan fees, retainer fees, and asset fees. Among planning, there is life planning, retirement planning, income planning, and legacy planning. And among specializations, there are in-house teams, casual to formal networks, and sole practitioners. The balance of this article seeks not to answer these particulars, but to provide you some fundamental questions that will hopefully move you in the right direction toward a solution that works for you.

Without further delay, here's the NEW "Eight Questions to Ask Your Financial Adviser":

- (1) Do you use a comprehensive approach to financial planning by directing our efforts around a written plan based upon my specific goals?
- (2) How will you communicate, both initially and through time, what I am paying you, how I am paying you, and what I am receiving for it?
- (3) Do you have any conflicts, limitations, or encumbrances that I need to be aware of, and will you communicate them in the future if any arise?
- (4) What is your core philosophy regarding your work? What results would lead YOU to conclude that our work together is successful?
- (5) Are you acting as a specialist or a generalist? In either case, who will be coordinating the specialists that will be needed over time to address my changing needs?
- (6) How often do you meet with clients? What do those meetings look like, and what communication methods do you use between meetings?
- (7) Will I be working directly with you, or through skilled assistants, and what procedures should I expect as far as phone calls made and received, mail sent and received, etc.?
- (8) What issues, topics, or challenges should I NOT be concerned about, despite what I may hear through the media; what issues, topics, or challenges SHOULD I be concerned about, despite not hearing much about it; and, how will you help me do that?

Clear communication should be a visible theme within these questions, and in this respect, some things never change. I therefore conclude with precisely the same closing statement from 2004:

The best advice is to never be afraid to ask!

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***Please reach the author by phone or email if you wish to have a copy of his "12 Fundamentals of Retirement Planning."***

Author may be reached here: [Emerald RPG](#)

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