

The Three Most Important Questions You Should Ask a Financial Advisor



You need to know the financial services industry is made-up of sales representatives and financial advisors. They have very different roles, but most sales representatives camouflage their real role by telling you they are financial advisors.

Why is it important to know the real role of the person who wants to control or influence how you invest your assets? I am going to answer this question with a question. Would you knowingly select a sales rep to invest your assets? When asked this question, 96.4% of investors said they would not. That is why sales reps have to hide their real role, which is selling investment and insurance products for commissions. No one would buy from them.

How do they get away with it? Wall Street interests have spent hundreds of millions of dollars on lobbyists to make sure reps and financial advisors do not have mandatory disclosure requirements. It is up to you to ask the right questions and you have to know good answers from bad ones.

You should also know Wall Street has made sure there are no rules that limit how reps describe their roles. Want to pretend to be a financial planner? No problem. Want to pretend you are a financial advisor? No problem. Reps describe their roles verbally so there is no written record of what they said to you to gain control of your assets.

What is the simplest, easiest way to identify sales reps who are using deceptive sales tactics to gain control of your assets? Follow these three tips.

What Registrations do they hold?

Sales rep licensing (Series 6, Series 7) permits them to sell investment products. They are not allowed to provide advice or ongoing services with these licenses. However, they are adept at making investment recommendations (legal) look a lot like investment advice (illegal). Real financial advisors are Registered Investment Advisors (RIAs) or Investment Advisor Representatives (IARs). These registrations permit them to provide financial advice and ongoing services.

Tip: Only select an RIA or IAR as your financial advisor.

What are their Ethical Standards?

Sales reps are held to lower ethical standards called suitability. Real advisors are held to higher ethical standards that make them financial fiduciaries. A fiduciary is a person who holds a position of trust.

Tip: Only select financial advisors who acknowledge they are financial fiduciaries in writing.

What is their Method of Compensation?

Sales reps only method of compensation is a commission that is paid by third parties (broker/dealer, mutual fund company) when the reps sell their products. 95% of the time the rep is paid within 30 days of the sale. Consequently, they have no economic incentive to service what they sell. Real financial advisors are compensated with one or more of these three types of fees: Fixed, hourly, or asset-based (% of assets). Asset-based fees are paid quarterly for the duration of the relationship.

Tip: Only select advisors who are compensated with fees for their knowledge, advice, and services.

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About the Author:



Jack Waymire has worked in the financial services industry for 28 years. For 21 years he was the president and chief investment officer of a registered investment advisory firm with more than 50,000 clients. He left the industry in 2003 when his book (Who's Watching Your Money?) was published by John Wiley. That same year he launched an investor information website (www.PaladinRegistry.com) that was based on the principles in his book. Jack is a columnist for Worth magazine, a frequent blogger on major financial sites, and widely quoted in the media including the Wall Street Journal, Forbes, BusinessWeek, Bloomberg, and Kiplinger.