The 8 Questions Most Financial Advisors Don't Want You To Ask.

Before we begin.

Estimated reading time: 15 minutes

Rather than choreograph a well-designed spin as to why you should work with me - this is instead a compilation of what I hated to be asked when I worked at my prior employer's. I hope to arm whoever stumbles upon this article with useful information, regardless of whether they become clients. The purpose of this article is to make an impact more significant than myself. If you genuinely care about your financial future and are considering hiring someone with whom to partner and guide you on your journey to that future, ask these exact eight questions and require these precise eight answers before entrusting someone with your life's savings. There are plenty of articles that provide the best questions to ask or criteria to look for when interviewing an advisor, but this should be a bit different.

Included below is the conversational roadmap I would want my Mom to follow if I couldn't help with her finances. Along the way, I hope to educate you as to why I believe these questions are so essential and also difficult for advisors to avoid answering. I have colleagues in the industry on both sides of these questions, so at the risk of damaging some of my relationships and losing a friend or two - I plan to be entirely transparent.

What is a fiduciary, and why should I care?

Ahh, the classic question that any informed consumer seeking an advisor would find themselves conditioned to ask, and for a good reason. Unfortunately, most clients I've worked with over my career would get the answer they were seeking and then move on. Instead, I want to equip you with a few loaded questions before proceeding with the standard inquiry, "are you a fiduciary?"

So first off, what is a fiduciary, and why should you care? Fundamentally, a fiduciary is someone that must place your interests ahead of their own. Do the right thing by your client - yeah, seems like common sense, right? You would think this would be common business practice, but unfortunately, it isn't. The fiduciary standard differs from the suitability standard, which most advisors still operate under all the time, or at least some of the time.

> "Stupid is knowing the truth, seeing the truth, but still believing all the lies." - Morgan Freeman

Let's take a step back from the confusing legal jargon (i.e., suitability standard vs. fiduciary standard). When it comes to investment advice, it boils down to this: if you were 65 years old, would you prefer someone to make personalized investment recommendations based on your goals specifically, or just make recommendations suitable for anyone who is 65? Moreover, one 65-year-old investor has a pension, and the other doesn't. Should they be invested the same? Of course not! Thus, the importance of finding a fiduciary legally required to make the distinction.

Are you a fiduciary, for real?

> "Honesty is the first chapter in the book of wisdom." - Thomas Jefferson

So now that you are all aboard the fiduciary train, it's full steam ahead to your goals - right? Not so fast; this is where things get interesting. Surprisingly a distinct line that divides those who operate under these two standards does not exist. A murky demilitarized zone lives for those that claim to be dual-registered, enabling them to operate under both standards. Let me put it into a real-world example for you.

> **Client:** Are you a fiduciary?
>
> **Advisor:** Yes, I am!
>
> **Client:** Great, I know that I need one of those!
>
> **Advisor:** Of course, now let me sell you a few products that are better for me than they are for you. These are my company's proprietary products and/or pay me more than the next company's, so I'm going to invent a compelling reason as to why these are the best fit for you. I can justify it because it's a product for anyone that fits your particular demographic.
>
> **Client:** But, you said you are a fiduciary, that sounds like it might not be personally best for me; how can you do that?
>
> **Advisor:** Well, I was when you asked, but I'm not now. I changed hats; I'm now a Broker. Couldn't you tell?
>
> **Client:** What? No, I couldn't tell. This must be a joke. Am I on Candid Camera right now?
>
> **Advisor:** There are no hidden cameras, and no, this isn't a joke. Here, take a look at this permanent life insurance policy, commissionable annuity, and A-share mutual fund.

Seems a bit far-fetched, right? I kid you not; these conversations take place every day. When thinking about describing how I feel knowing this is even possible with all of the regulation in our industry - mind[fudged] is a term that seems fitting, but confounding may be a bit more appropriate. Anyway, here are a few different ways to ask your advisor if he is a fiduciary without actually asking. Yes, a loaded question. Lol.

> "Never, never, never, on cross-examination ask a witness a question you don't already know the answer to, was a tenet I absorbed with my baby-food." — Harper Lee, To Kill a Mockingbird

I love this quote because when asking someone if they are a fiduciary, you don't have to take their word for it. You should know how to verify our pseudo-fiduciaries' responses. Here are a few ways to determine if your advisor is a potential wolf in sheep's clothing. And, Yes, I'm sure he is a super nice guy.

Question 01 - Are you Series 7 Licensed?

Correct Answer: No

> "Never base a life decision on advice from people who don't have to deal with the results." — Ravi Pandey

Are you registered with the SEC or FINRA?
Correct Answer: Only SEC, not both (dually-registered), and also not just FINRA

Are you a broker or investment advisor?
Correct Answer: Only investment advisor

Do you have the ability to receive commissions for selling products?
Correct Answer: No

A yes answer to any of these questions automatically disqualifies genuine fiduciary status. They are all essentially the same question, and there are many ways to squirm around the answer. My particular recommended question answers everything we need to know and elicits a black and white, yes or no response: are you Series 7 licensed? Correct answer: NO!

Under the Securities Exchange Act of 1934, "brokers" are paid a commission for the product that they recommend, from the company that you invest your money with. Also, that is why you typically do not see the commission on your statement. They are held only to the suitability standard, meaning, anyone with a Series 7 (all brokers) are simply required to "broker" a suitable transaction for their client rather than act as a true fiduciary. Can you think back to a time you may have been sold a product by broker?

Under the Investment Advisors Act of 1940, a "registered investment advisor" in principle provides recommendations and gets paid a fee directly from the client for their advice, not a commission from the company providing the product.

Pat yourself on the back; I know that was riveting stuff. Good job getting through it. You've already eliminated the majority of financial professionals that call themselves advisors in the US. I think we can all agree, it'd be better to have someone paid by the quality of their advice rather than the products which they choose to sell.

Question 02 - Are you a fee-only or fee-based advisor?

Correct Answer: Fee-only

> "We don’t want to push our ideas onto customers. We simply want to make what they want." - Laura Ashley

Fee-only advisor: compensated only by the advice they provide and don't receive any product-related commissions.

Fee-based advisor: compensated partly by advice and party by commissions.

Here is where things get tricky, and most folks miss this. A fee-only advisor can charge an hourly fee, an annual percentage based on the amount they manage, or even a flat retainer for their advice. A fee-based advisor can charge clients for their guidance in much the same way but then receive commissions for recommending particular products, creating a conflict of interest. Typically, these advisors would have to have a Series 7 to do this, making them part broker and part investment advisor or dually-registered.

However, another subset of fee-based advisors exists that would have missed our Series 7 question, making them the ultimate sheep in wolf's clothing. They also can sell products that don't require a securities license for a potentially fat commission check (i.e., think fat conflict of interest). I know as well as anyone that you need to be protected with life, accident, disability, health, health, property, casualty, umbrella insurance. We need to be sure that the ends justify the means, and you are being recommended solutions that fit your needs instead of your advisor’s. For example, if you told an advisor that you have $500 a month to invest and charges you 1% based on the amount he manages, it will be quite a while before your account grows to a significant balance. The advisor might be conflicted to recommend an insurance policy to funnel your savings into paying him more upfront in the process. I've witnessed first-hand advisors trading their client's best long term interests for their own current compensation. Or, as another example, maybe your fee-based advisor is more likely to recommend a life insurance policy with a death benefit beyond what you need because it pays them more.

> "Integrity is doing the right thing, even when no one is watching." - C.S. Lewis

In summary, stick with fee-only.

Two easy questions in, and we've quickly eliminated roughly 90%[1] of professionals providing financial advice in the United States. Crazy, right?

Question 03 - Does your firm or subsidiaries offer any proprietary products or strategies?

Correct Answer: No

> "A customer can have a car painted any color they want, so long as it is black. " - Henry Ford, remark about the Model T in 1909

Would you consider that quote misleading? It's akin to having your local car dealership attempt to sell you a car that runs on gasoline when your unique circumstances require an electric vehicle. Both sets of wheels are still going to get you from point A to point B and are *suitable* modes of transportation. But an electric Tesla is in your personally-specific *best interest*, which works out because you happen to be at a Tesla dealership already. But what if you were at a dealership that didn't have any electric cars on the lot? You better believe the salesman you are talking to will make a case for the benefits of gas over electric, providing advice better for him than for you. Don't be mad at him because he doesn't work for Tesla; he's got a job to do like all of us. Thank him for his time and search, "closest Tesla dealership" on your iPhone. Car salespeople don't have to be fiduciaries, but your advisor does.

Suppose your advisor's firm or its subsidiaries (usually another strategy under another name to add some misdirection pizzazz) have proprietary products. This means that XYZ company your

[1] *Posted on January 21, 2019 - The Tim Ferris's Show Transcripts: Peter Mallouk (#356)*

advisor works for also has XYZ products on the shelf to offer as a solution for your needs (i.e., Big Apple Financial Mutual Funds always find a way the portfolios of Big Apple clients).

As you can imagine, this an inherently conflicted dilemma, so the following could be true:

- They are compensated more to offer these solutions.
- If paid the same, maybe there is an understood innuendo to guide clients to a particular solution for corporate reasons that don't require much imagination.
- There is limited shelf-space. Possibly, only select strategies are available for recommendation to a client (i.e., the company they work for acts as a distribution channel for other company products that have exclusivity for that slot on their shelf).

Many firms, including those claiming to be 'independent,' offer this illusion of choice to their unaware clients. Do you believe that the firm your advisor works for happens to have the absolute best solution for each allocation of your portfolio? To say it differently, do you think that one company has a corner on all the best ideas?

Does your firm or subsidiaries offer any proprietary products or strategies? - If the answer is yes, then it is easy to move on. Be aware that often XYZ company will have a sister company, say ABC mutual fund or separately managed account, so it's essential to include this in your inquiry.

Question 04 - Who will I get statements from?

Correct Answer: Directly from your custodian

"Diligence is the mother of good luck" - Benjamin Franklin

Custody concerns where your assets are held, so if your advisor has complete custody, you are playing with fire. Bernie Madoff is our resident poster child for the lack of an independent custodian. He was able to fool investors for years, mainly because he could doctor their statements to reflect whatever he wanted. Most advisors will provide their own statement directly showing additional metrics such as performance. You should always cross-reference the balances reflected with the statement you receive from your custodian.

Another way to verify, if I were to mail a check to your company to invest for me, how would I make the check payable?
Ans: TD Ameritrade (Custodian example), FBO: John Smith, Account #xxxx-xxxx

The key takeaway here is, you should never send assets to your advisor for investment made out to him or her instead of to the custodian holding the assets.

Question #5 – Are you a CFP®?

Correct Answer: Yes

> "Finish last in your league and they call you an idiot. Finish last in medical school and they call you doctor." – Abe Lemons

The lack of barrier to entry for someone to call themselves an advisor is gaining more notoriety as the profession attempts to improve its reputation. Rightfully so - managing someone else's future livelihood should not be a part-time job. At the very least, managing your own personal wealth can be a full-time hobby if you can separate your emotions from your own money. That's a topic for another day. Managing wealth on behalf of another person is another ballgame entirely.

Luckily there are ways for advisors to attempt to differentiate themselves and demonstrate their credibility amongst the sea of advisors that are otherwise indiscernible to the average consumer.

Credentials are critical in being able to filter through all of the advisors out there. Unfortunately, someone with the alphabet soup of letters after their name does not in any way correlate to competence. As of December 2020, FINRA's website for the financial services industry listed 214 professional designations. Whew! It looks like our search in the sea just got deeper.

> "An investment in knowledge pays the best interest" – Benjamin Franklin

I'll make this super simple for you; the Certified Financial Planner™ designation is the gold standard. No different than seeking a licensed attorney for legal guidance, if your advisor is providing any financial planning, make sure at the very least they have a CFP® on staff. Speaking from personal experience, the mandated requirements from the Board of Financial Planning were grueling. Two years of graduate-level coursework through an accredited institution (for me, Northwestern University), thousands of hours of study time, capped off by a seven-hour board exam makes me incredibly proud to say that I'm a CFP®. There were times throughout the licensing process where I was questioning why I did this to myself- until now. The answers that I now have to questions that I wouldn’t have even known to ask in the first place have made a massive impact on my client’s financial plans. In addition, I complete 30 hours of rigorous continuing education every reporting period to stay abreast of the dynamic tax, estate, insurance, and investing climates.

Question 06 – Do you ask to see your client’s tax returns?

Correct Answer: Yes

For bonus points: Do you coordinate a review of your client’s estate documents and confirm their assets are adequately covered with the proper insurance?

> Tax evasion is illegal. Tax avoidance is intelligent.

All we are left with as investors are our after-tax and after-cost returns. Steering your portfolio through the ever-changing tax code will always be directly linked to your financial success. The single biggest expense we all will experience throughout our lives is taxes, so ensuring you keep most in your pocket each year is a big deal. I could provide a litany of opportunities we would have missed had we not done any tax planning over the years. It’s moreover proof that if an advisor isn’t asking to take a hard look at this with you each year then they aren’t doing their best work possible. For an advisor to not educate themselves on your tax picture is unacceptable in my book, and it’s that simple.

Question 07 – Do you work with people like me?

Correct Answer: Yes, your circumstances are my specialty.

> You wouldn't hire a podiatrist if you needed heart surgery - which is why a doctor’s specialty is listed on their office door.

Up to this point, we've widdled down an extensive catalog of advisory choices down to a relatively short list. This question seems insignificant compared to the rest, but it may be the most important, so don't take how your advisor responds lightly. Having information is one thing, but knowing what to do with it is something else entirely.

Earlier in my career, I had a client that was moving out of state for retirement and was adamant about wanting to have a local advisor. As we would no longer be working together, he asked a final favor of me to help narrow down his choices. I obliged and made a couple of phone calls to a few firms that I felt would fit what he needed. I'll never forget one specific conversation. The advisor on the other end of the phone passed the first seven questions with flying colors. He had all the right answers and a personality that I thought would click with my client. He then asked me roughly how much in assets my client would be investing, as his firm had an asset minimum. I told him that he had in excess of $4 Million, but I couldn't share more than that. The advisor exclaimed, "$4 Million, that type of client is right in our sweet spot!" That experience has always stuck with me because the advisor never asked how old he was, what he did for a living, if he was retired, what his goals were, investment preferences- nothing. He automatically was 'in his sweet spot' based solely on how much money he had. Needless to say, at that point, it didn't matter what the advisor had to say. We ended up finding someone that didn't have dollar signs in their eyes.

> "I fear not the man who has practiced 10,000 kicks once, but the man who has practice one kick 10,000 times." - Bruce Lee

Seek a wise financial planner, not just one who is knowledgeable. A wise financial planner will understand your situation and speak into it because he has experienced it before, be it personally or alongside their clients. Wisdom means having been down a road before and that should mean something.

Question 08 - Do you invest Roth IRAs, IRAs, and taxable accounts the same way?

Correct Answer: No, we create customized solutions tailored to each client.

> "If everyone is thinking alike, then someone isn't thinking." - General George S. Patton

What you're really looking to learn here aside from competency is whether or not the advisor is going to provide a customized solution to your unique goals. From my own experiences as an advisor when all you have is a hammer in the toolbox (i.e., a limited number of model portfolios to choose from) every account ends up looking like a nail.

Determining how much fluctuation or volatility you're comfortable with (risk tolerance) in your portfolio, compared to how much you must endure (risk capacity) to get to your goals is very important, and all good advisors should help you with this. But unless you've found a great advisor, don't be surprised if each of your accounts ends up be looking similar.

Don’t let a fox guard the henhouse.

I want to note that great advisors still exist acting in their client's best interest and are in the business for the right reason: to help people. I know many great people who operate on the aforementioned side(s) of the business, and I hope our friendships can transcend the transparency of my writing. Covering this topic is not a slight against them and their inability to adequately answer all nine questions, but instead serves as a Public Service Announcement based on my own experiences. Objectivity is often breezed over as it's next to impossible to get someone to understand something when their very paycheck and livelihood involves not understanding it.

On the small farm I grew up on, we would clip the chickens' wings that might 'fly the coop'. So affectionately, don't be a clipped-wing client. Without ensuring whoever is partnering with you on your financial journey has the right answers to these questions today, you may end up having to redirect the flight path towards your goals later.

For years as an advisor, I had corporate-blinders *on (maybe one too many farm references?)* and never questioned my environment. Naive no more, I now know that a trusted partner should never have to choose between the company he works for and the clients he represents.

> Matthew 6:24: No man can serve two masters: for either he will hate the one, and love the other; or else he will hold to the one and despise the other.

You wouldn't hire a doctor that balances their allegiance between the hospital and patient or retain an attorney that doesn't value the privilege with his client above anything else. So don't settle on the quest for your financial fiduciary either. Ensure that only one interest is served: yours.

> "In a gentle way, way you can shake the world." - Mahatma Gandhi

If this article helps just one person, it will have achieved its purpose.

Thank you for allowing me the opportunity to play a role in your future financial success.

Benjamin Barnhart, CFP®
benjamin@barnhartwealth.com

DISCLAIMER: This document is for informational purposes only and does not constitute a complete description of our investment services. This document is in no way a solicitation or offer to sell securities. **THE INFORMATION ON THIS DOCUMENT IS NOT AN OFFER BY OR ON BEHALF OF ADVISER OR ITS AFFILIATES TO SELL OR SOLICIT AN OFFER TO BUY ANY SECURITY OR OTHER SERVICES.**

The Company and its investment adviser representatives only transact business in states where they are properly registered, or excluded or exempted from registration requirements. Information on this document should not be construed as personal investment advice. Nothing on this document should be interpreted to state or imply that past results are an indication of future performance. Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended and/or purchased by adviser), or product made reference to directly or indirectly on this website, or indirectly via link to any unaffiliated third-party website, will be profitable or equal to corresponding indicated performance levels.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. No client or prospective client should assume that any information presented and/or made available on this document serves as the receipt of, or a substitute for, personalized individual advice from the adviser or any other investment professional. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results.

Diversification does not protect against loss in a declining market.

Clients should contact adviser directly if they believe that there may be an error in their statement. We urge our clients to carefully compare the information provided on our statements to statements provided by their custodian in order to ensure that all account transactions, holdings and values are correct and current.