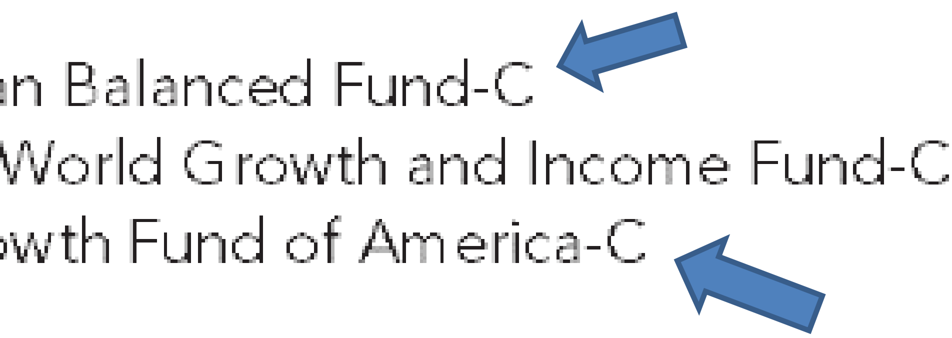
Hiring an Advisor

6 Questions to Ask Before Hiring One

1. **Are you a fiduciary? If not, why?** A fiduciary has a legal, not a moral, obligation to act in your best interests. A non-fiduciary can act in their own or their employer's best interest, as they are instead salespeople, not fiduciaries. It does not make these people bad, but it important to understand the difference as it can significantly affect what they recommend based on the next question.
2. **How are you compensated?** There are 3 primary ways in which a broker or advisor is compensated.
   - Commissions (most likely not a fiduciary) - If advisors are compensated in any way by the products they sell, there can be a natural bias in offerings. The following are some of the most common approaches used to charge commissions in mutual funds.
     - **A Shares** – You pay an up-front commission whenever you deposit money in the account which vary based on how much you are investing with the company; it can range from 5.5% for small accounts to 1% for large accounts.
     - **B Shares** – B stands for bad. Just make sure you never invest in B Shares, which is really all you need to know.
     - **C Shares** – The broker makes 1% on the initial sale, plus 1% ongoing for up to 10 years.



You can find the share class by checking your statement. The share class will typically be listed after the fund name.

     - **12b-1 fees** – These are built in to the expense ratio of the fund. These can range from 0.25%/yr to 1%, depending on the share class.
   - Fee Based (most likely not a fiduciary) – These advisors can receive both commissions and fees, which can be very expensive. Typically fees range from 1% - 1.5% plus they can collect 12b-1's from the investments (see above) to increase their compensation.
   - Fee-Only (most common approach for fiduciaries) – Fee-only means the advisor receives no compensation from the investments, only a fee for the service they provide.

Understanding how your advisor is paid can help you understand whether the products and/or services they are recommending are in your best interest or their own.

3. **Can you provide me an estimate for how much you are compensated now and ongoing for the services/products you are recommending?** It's quite fair to ask this question, and if the advisor/broker is uncomfortable or unable to answer it, then do not work with them. Additionally, you will likely hear a percentage. Do the math, as 1.5% may not sound like much, but it is $3,000 per year for a $200,000 account.
4. **How is my portfolio monitored and managed on an ongoing basis?** There should be clear expectations for ongoing management and monitoring of the portfolio.
5. **If I need to adjust my plan, can I move my portfolio into a completely different investment?** If you cannot move the money to **a completely different investment (mutual funds, CDs, etc. that are not a part of the product)**, you can be locked into a product with few options. The key here is that many people end up in variable annuity products and can be stuck with them with very few options.
6. **If I decide this is not the right fit for me/us, how do I fire you?** This question is in line with the previous one, as you always want to make sure you can fire your advisor without penalty or being stuck with the products they recommended you use.

Schedule a consultation with BeManaged if you would like help determining how your advisor is compensated and if it is in your best interest.
http://www.BeManaged.com