

How to Evaluate a Wealth Manager

Ask the right questions

“Wealth management” doesn’t mean the same thing to everyone. The category encompasses diverse business models and a wide range of service offerings, styles, and merits. Given this disparity, how do you establish a basis for comparison? We encourage you to ask all potential advisors the following questions, to help you better ascertain the value they might be able to provide you and your family.

Is the firm governed by the fiduciary standard?

Knowing the standard of care that the firm is required to uphold is a good place to start. Registered investment advisors have always been governed by the “fiduciary standard” of serving your best interests. With the implementation of the U.S. Security and Exchange Commission’s Regulation Best Interest on June 30, 2020, broker-dealers must also abide by the fiduciary standard—to a more limited degree. Broker-dealers’ obligations apply only to securities recommendations, whereas independent advisors have a universal obligation to put their clients’ interests before their own. This applies not only to investment guidance but to any financial advice provided.

What are the advisor’s qualifications?

In the wealth management and investment industry, there are various accreditations that can be important indicators of knowledge and experience. Professional organizations like the CFP Board, the Investments and Wealth Institute (formerly IMCA), and the CFA Institute have rigorous certification processes and ongoing education requirements. Learn more about these credentials on their respective websites.

Is the advisor focused on you?

Is your individual advisor primarily responsible for serving existing clients or finding new ones? Is there a limit to the number of clients your advisor can serve, and if so, what is that threshold? How frequently can you expect to have personal meetings with your advisor? Also inquire about the firm’s or advisor’s client retention rate, which can be an indication of client satisfaction, and ask for client references. Candid conversations with current clients can provide valuable insight into the client experience.

Are fees and compensation transparent?

Ask for a clear and thorough explanation of fees—are they based on the value of assets managed or based on commission? What other potential fees might your investments incur? If your individual advisor can profit from specific investments or transactions you make, there may be conflicts of interest that could influence his or her recommendations. The advisor should be able to outline your “all-in” cost of management (including underlying fees charged by third parties), which helps establish an equitable means of comparison.

Will you receive integrated planning and investment advice?

Does your wealth advisor take a holistic approach, working with your estate planning attorney, tax advisor, or insurance professionals as needed to ensure the components of your plan are in harmony? Will your asset allocation and investment portfolio be constructed based on your personal financial plan? Will your portfolio be regularly monitored and adjusted as needed, based on market conditions, changing personal circumstances, and your long-term financial goals? Without coordination among your other trusted advisors and agreement between your portfolio and your plan, the various aspects of your financial life may be working against each other instead of together.

What is the advisor’s investment philosophy?

Does your advisor have a concrete investment philosophy that is articulated in a clear and coherent manner? Is it one and the same with his or her firm? Will it be consistent with all of the asset allocation and investment recommendations you receive? Consider, too, how well your advisor’s approach lines up with your own preferences, return expectations, and risk tolerance. What controls are in place to ensure your advisor abides by your agreed-upon portfolio guidelines? A stated commitment to a set of guiding investment principles can indicate your advisor won’t be swayed by short-term market fluctuations, fads, or Wall Street commotion. In times of market volatility, your advisor should be a steady voice of reason, helping you to avoid emotional decisions that could lead to costly mistakes.

What types of investment solutions will be offered?

How are investment options evaluated? Are the investments managed in-house by the firm/advisor or by a third-party manager? Do the investment managers utilize an active or passive approach? Gather information about the scope of investment vehicles and strategies that will be available to you, as these options can significantly influence your ability to achieve your long-term goals.