

Many years ago, Tom Little, the head of Park Day School, which my daughters attended, asked me to come to a meeting of teachers and staff. Park Day is an independent School founded by teachers and parents. The school was growing, and the teachers and staff wanted to set up a 403(b) retirement plan. The insurance agent for the school-- I'll call him Bob-- was at the meeting. Bob had found an insurance company that would manage the 403(b) plan, as well as provide financial advice for the employees who enrolled. I thought that the insurance company's fee sounded high. I said to the group, has anyone asked Bob how much the insurance company will pay him if you go with his recommendation? Silence. The teachers were looking at their shoelaces. Even the ones wearing sandals were wondering whether they should get shoelaces. I had violated a social code. It wasn't polite to ask Bob about his finances. I went on, look, like the rest of us, Bob deserves to earn a living. But you're asking him for advice, and a company is offering to pay him a commission to recommend their products. If you buy from that company, it's going to be your money paying his commission. So you deserve to know how, and how much, Bob is being paid.

Before hiring a financial advisor, you need to ask questions. Some of these questions, like, how are you being paid, may seem rude. But they're important. So write them down, bring them with you, and ask. Several of the questions I'm about to suggest are taken from a Department of Labor publication that you can download here. The most important question you need to ask a financial advisor is, are you a fiduciary? A fiduciary is committed to putting your interest before his or her own. Ask, are you legally required to put your client's interests ahead of your own, and your employer's? If the advisor answers no, ask why not. Ask the advisor to commit in writing to acting as a fiduciary. But if he said he would act as a fiduciary, isn't that enough? Isn't it rude to ask someone to put promises in writing? Not in this case. We're talking about your financial future. Don't hire an advisor who won't commit in writing to acting as a fiduciary.

Here is a sample of a fiduciary oath that you can download at thefiduciarystandard.org. Next, ask, how are you paid for your services? Do you charge a percentage of assets under management? Do you have an hourly rate? A flat rate? Are you paid by commissions? Exactly what services will I get for these fees? Do some of the services you provide cost extra? Do you earn fees, or commissions, based on the number of products that I buy, or the size of my investment? Will you earn a higher fee, or any type of compensation, if I invest in certain products that you recommend? Will you provide a written list of the fees, commissions, and other benefits you receive, either directly from me, or receive from other sources, for the products and services you recommend to me? Make sure that you're comfortable with your understanding of how your advisor is compensated.

What about the advisor's experience and credentials? Ask, what experience do you have, especially with people in my circumstances? Could I speak with a few of your clients whose circumstances are similar to mine? Where did you go to school? What did you study? What's your most recent employment history? What credentials, or certifications, do you have for financial advising? Remember, some certifications require substantial coursework, as well as passing difficult exams. Some don't. So be sure

to verify whether the credential that this advisor has meets high standards. Ask, are you a registered investment advisor? Are you registered with the state, with the Securities and Exchange Commission, the Financial Industry Regulatory Authority, or the Certified Financial Planner Board? Who supervises you, or are you a sole practitioner? If a sole practitioner, do you have professional liability insurance? Have you, or your firm, ever been disciplined? And if so, for what? Ask whether you'll be working directly with this advisor, or with a member of his or her team.

If you're going to be working with someone else at the firm, meet that person before you decide to hire the firm. Ask him or her to commit in writing to a fiduciary standard. And ask about his or her credentials. If you hire this advisor, who's going to have custody of your assets? Often, independent financial advisors will have you open an account at a large financial institution, such as Schwab, Fidelity, or Ameritrade Institutional, that acts as the custodian for your securities. Ask the financial advisor what would happen with your account, if he or she died in a car crash. What if her office was destroyed in an earthquake? You know, here in California, we think about earthquakes. How does the advisor protect clients' personal electronic data? Will the advisor have discretionary trading authority over your investment accounts? This means that the advisor can place orders for mutual funds, stocks, and bonds, and other securities, on your behalf. Will the advisor also be authorized to withdraw funds from your account? If so, why? To give discretionary trading authority, you will need to sign a document. Carefully read this, or any other document you're about to sign. If you don't understand something, ask for an explanation. If you still don't understand, don't sign. Take the document with you, and get some help understanding it before you sign.

Finally, find out whether this financial advisor provides the services that you're looking for. Ask, what products and services do you offer? These might include goal setting, cash management and budgeting, investment planning, estate planning, retirement planning, and insurance. How often will the advisor review your account? How often will he or she meet with you? Are you comfortable with this advisor? Were all of his or her answers clear? If not, keep looking. Park Day School was able to set up a 403(b) plan with TIAA-CREF for much lower fees than what Bob's insurance company would have charged. Those lower fees mean that the teachers and staff at Park Day School will have more money when they retire. Fees matter. So while you're asking your prospective financial advisor questions, ask one more-- can I negotiate a lower fee?