

Accredited

**Associate**

*Board Certified*

**Certified**

Chartered

**Fellow**

LIFE UNDERWRITER

Master

**Professional**

*Qualified*

Registered

**RETIREMENT**

**Wealth**

[7]

# THE INVESTMENT ADVISOR CHECK LIST

Don Gimpel – April 2014

**“Men must know their limitations.”**

**-- Clint Eastwood**

When they don't, Clint pulls out his  
44 Magnum and shoots them between  
the eyes.

# Investment Advisors ...

This is what Paladin Registry has to say about Investment Advisors [6]:

- 10% are real financial experts
- 10% are relative financial experts
- 15% are striving to become financial experts
- 65% are sales reps who are paid commissions to sell investment products

I wonder who's vouching for Paladin Registry?

# Maybe you just can't do it anymore

- There may come a time when you just can't handle your investment portfolio and you need some help.
- Maybe you can't do a good enough job.
- Maybe you're not around anymore.
- Maybe you're just tired of it all.

Here's some important advice ...

# I don't know how you can rank investment advisors ...

- You can't by their return because you haven't included risk.
- You can't by strategy because a strategy can be unsuccessful for the moment.
- You can't by convenience because distance is no longer a factor.
- In any event you know one that you like when you see him. Charisma is the trick but how do you quantify charisma.

# Some words about responsibility ...

Turning over your investment portfolio to an investment manager does not relieve you of your management responsibility. It just changes the rules a little bit.

What if the manager tells you up front that his job is to invest your portfolio. What happens if the market really stinks and you have to face the decision to get out. Are you prepared to take that responsibility? Ultimately, you must.

# What's your job? [8]

You're job is to fire the money manager if you're not making any money. If that's the case, he's going to give you lots of reasons why he's doing good things for you.

Are you prepared to make that kind of judgment and if you think so, on what basis?



# Myth #1 You get what you pay for! [1]

“Most investors outsource their portfolio to professional Money Managers who supposedly perform better because, well they’re “PROFESSIONALS!” But the money management business is just like any other competitive business. Not everyone can be great at it. And research shows that over 80% of professional mutual fund and hedge fund managers underperform a correlating index. The reality on Wall Street is that most professional money managers cannot outperform an index and add very little value over buying a simple index fund.” (Which index fund?)

# The 5 myths [1] are:

1. “You get what you pay for.”
2. “Money managers and their advisors have their interests aligned with yours.” (Think of their tactic of maximizing recurring fees.)
3. “Buy and hold is the best approach.”
4. “You need to invest with a household name.”
5. “You will get rich by investing.”

# So he's got a title! [2]

ARA	Accredited Retirement Advisor or
ARPC	Accredited Retirement Plan Consultant
CSA	Certified Senior Advisor
CRFA	Certified Retirement Financial Advisor
CASL	Chartered Advisor for Senior Living
versus	
AEP	Accredited Estate Planner

# It's a matter of responsibility ...

- Investment Advisors are held to a “fiduciary” standard of care which requires them to act in their client’s “best interests.” A fiduciary standard prohibits an investment advisor from subordinating a client’s interest to the advisor interest and requires advisors to disclose conflicts of interest.

- Broker-dealers securities recommendations are measured against a “suitability” standard which means that the recommendations must be consistent with their clients interests.

[Ref. 2 pg. 31]

# Accreditation Status – not accredited [2]

ARA	Accredited Retirement Advisor
ARPC	Accredited Retirement Plan Consultant
CSRP Planning	Certifies Specialist in Retirement
PRPS	Personal Retirement Planning Specialist
RIS	Retirement Income Specialist

# Down to business. Getting acquainted ...

- How did you learn about the service?
- Does the Money Manager have an office?
- Did he volunteer to meet you at your home at your convenience because you are a busy man?
- Does he have a back-up.
- Do not be misled by your surroundings or simple politeness.

(Don: Be sure to talk about the coffee service.)

# What he wants to know about you:

- ❑ What's your net worth and the size of your investment portfolio?
- ❑ How much do you plan to invest with him?
- ❑ Do you have special tax or trust requirements?
- ❑ What are your withdrawal requirements?
- ❑ What is your risk tolerance.

(Don: Tell how people lie about this.)

# What you need to know about him:

- How long has he and his firm been managing investments?
- Do they do their own research or have a service?
- Are they simply money manager brokers?
- Who handles the money?
- How often are summary reports distributed and by whom?
- What is the nature of his service?
- Does he require a performance incentive?



## Need to know, continued ...

- Has the manager ever been accused of fraud?
- Who audits their reports?
- What are his fees and are they on a sliding scale?
- Do they offer different portfolio styles?
- Is your portfolio pooled or managed separately?
- What is their responsibility to you?
- What are you paying for exactly?
- Did you read the fine print?

# The Risk Tolerance Test:

Q: How do you feel about losing money?

A: Lousy!

Q: What happens when you lose money?

A: I can't sleep, I get mad at my wife and I kick the dog.

Q: What happened then?

A: The dog bit me.

Q: How do you feel when you make money?

A: Terrific! I feel so good that I buy my girlfriend a nice present but that hasn't happened lately.

# Getting down to business – the investment strategy ...

- ❑ Do they follow a strategy and are they willing to talk about it in simple understandable terms?
- ❑ Do you understand the strategy?
- ❑ Do you feel comfortable with the strategy and does it fit your needs?
- ❑ Have all the “risk factors” been explained to you?
- ❑ Is their strategy “active” or is it passive leaving it to you to know when to get out of the market?

# How well have they done?

- ❑ This may be fun and games time and you ought to understand that up front. (Don, give examples.)
- ❑ Find out about their Compound Annualized Return (CAR) over time and particularly in 2003 and 2008.
- ❑ Look for draw-downs and find out why. (Don, tell the story about how a well known expert cheated at an AAI Seminar.)
- ❑ Ask about average number of trades per year and the average of profitable trades.

# Return Calculation Examples:

Return calculation methods ...

- Total Return (%) divided by # Years.
- Average of Annual Returns.
- Average of Compounded Annual Return (%).
- Compounded Annual Return (CAR %).

# How do you get out of the deal?

- ❑ Did the advisor make a pitch to consolidate your accounts?
- ❑ Find out what it takes to make a withdrawal.
- ❑ Make sure you find out how to close the account.
- ❑ Look out for a narrow closure window.

# Disclaimer:

I use the same 3-page disclaimer that Jim Quinn uses in his talk. It boils down to:

1. I don't know nuttin'.
2. I didn't do nuttin'.
3. If you follow my advice you're crazy.
4. I've never seen you before in my life.
5. I was not even there in the first place.

## REFERENCES:

- [1] “5 Wall Street Myths that Hurt Investors,” Orcam Alternative Perspectives, Orcam Financial Group, [info@orcamgroup.com](mailto:info@orcamgroup.com), October 1, 2012
- [2] “Senior Designations for Financial Advisors” Consumer Financial Protection Bureau, April 25, 2013
- [3] “Watch Out For Senior Specialist Financial Advisors,” <http://www.forbes.com/sites/nextavenue/2013/04/25/watch-out-for-senior-specialist-financial-advisors.htm>, April, 2013
- [4] “Brokerage Service Buying Guide,” May, 2013  
<http://www.consumerreports.org/cro/brokerage-services/buying-guide.htm>
- [5] FINRA “Study on Investment Advisors and Broker Dealers,” January, 2011
- [6] <http://www.paladinregistry.com/advisors-planners/overview>
- [7] [http://www.FINRA.org/investors/ToolsCalculators/ProfessionalDesignation/DesignationsListing/PC\\_INDEX\\_A](http://www.FINRA.org/investors/ToolsCalculators/ProfessionalDesignation/DesignationsListing/PC_INDEX_A)
- [8] <http://www.greenwichroundtable.org>