

# WHAT INVESTMENT ADVICE DO YOU NEED AND WHERE DO YOU FIND IT?

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# AGENDA – SESSION OUTLINE

- How to think about trust
- Who are you and what do you need?
- What do advisors provide?
- Regulatory Standards
- Practical Questions - Hiring an Advisor
- Case Study
- Questions?

NOTE: Several resources used for this presentation were provided by James Grubman, Ph.D. Jim is a family wealth consultant and author of an excellent resource – ***Strangers in Paradise: How Families Adapt to Wealth Across Generations***

# WHAT IS TRUST?<sup>1</sup>

- *Trust is an option, a **choice***
- *Trust is **dynamic**. It involves personal responsibility, commitment, and change*
- *Trust is a **social practice**, not a set of beliefs...an aspect of culture and the product of cultivation*
- ***Breaches of trust** do not mark the end of trust but are part of the process of trusting*
- *The core strategy for building trust is **making and receiving assessments** and learning how to negotiate them*
- *“Trust is something that you \_\_\_\_\_.”*

<sup>1</sup> *Building Trust: In Business, Politics, Relationships, and Life*, by Robert C. Solomon and Fernando Flores

# ASSESSMENTS IN BUILDING TRUST

*If TRUST is built on assessments, how can/should you get better at making them?*

- ❖ *Think of yourself as a negotiator*<sup>1</sup>
- ❖ *Good negotiators think carefully about what they want/need. (i.e., know/clarify your objectives)*
- ❖ *Good negotiators ask more questions*
- ❖ *Good negotiators understand when and how they may be vulnerable (i.e., recent widow/divorce/other significant life event)*

<sup>1</sup> *Negotiating Your Investments: Use Proven Negotiation Methods to Enrich Your Financial Life*, by Steven G. Blum

# WHO ARE YOU & WHAT DO YOU NEED<sup>1</sup>?

## ASSESS YOURSELF FOR KNOWLEDGE/SOPHISTICATION **AND** THE NEED FOR CONTROL

### **Knowledge**

1. How experienced are you in investments?

1	2	3	4	5
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*Not very experienced*

*Very experienced*

2. How much do you know about the securities markets?

1	2	3	4	5
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*Not much*

*A lot*

### **Control**

1. How much time do I want to/can I devote to my finances?

1	2	3	4	5
---	---	---	---	---

*Less than one hour/week*

*35% or more of my time/week*

2. Am I looking for an advisor or strictly a money manager?

1	2	3	4	5
---	---	---	---	---

*Advisor*

*Money Manager*

3. How involved do I want to be? Should I be?

1	2	3	4	5
---	---	---	---	---

*Not involved*

*Want and expect to be involved*

4. Am I looking for one person/firm to handle 100% of my assets or am I looking for several firms? How important is simplicity to me?

1	2	3	4	5
---	---	---	---	---

*Prefer one person/firm*

*Prefer multiple persons/firms*

Add up your scores for all questions in both categories – and plot them on the chart on the following page

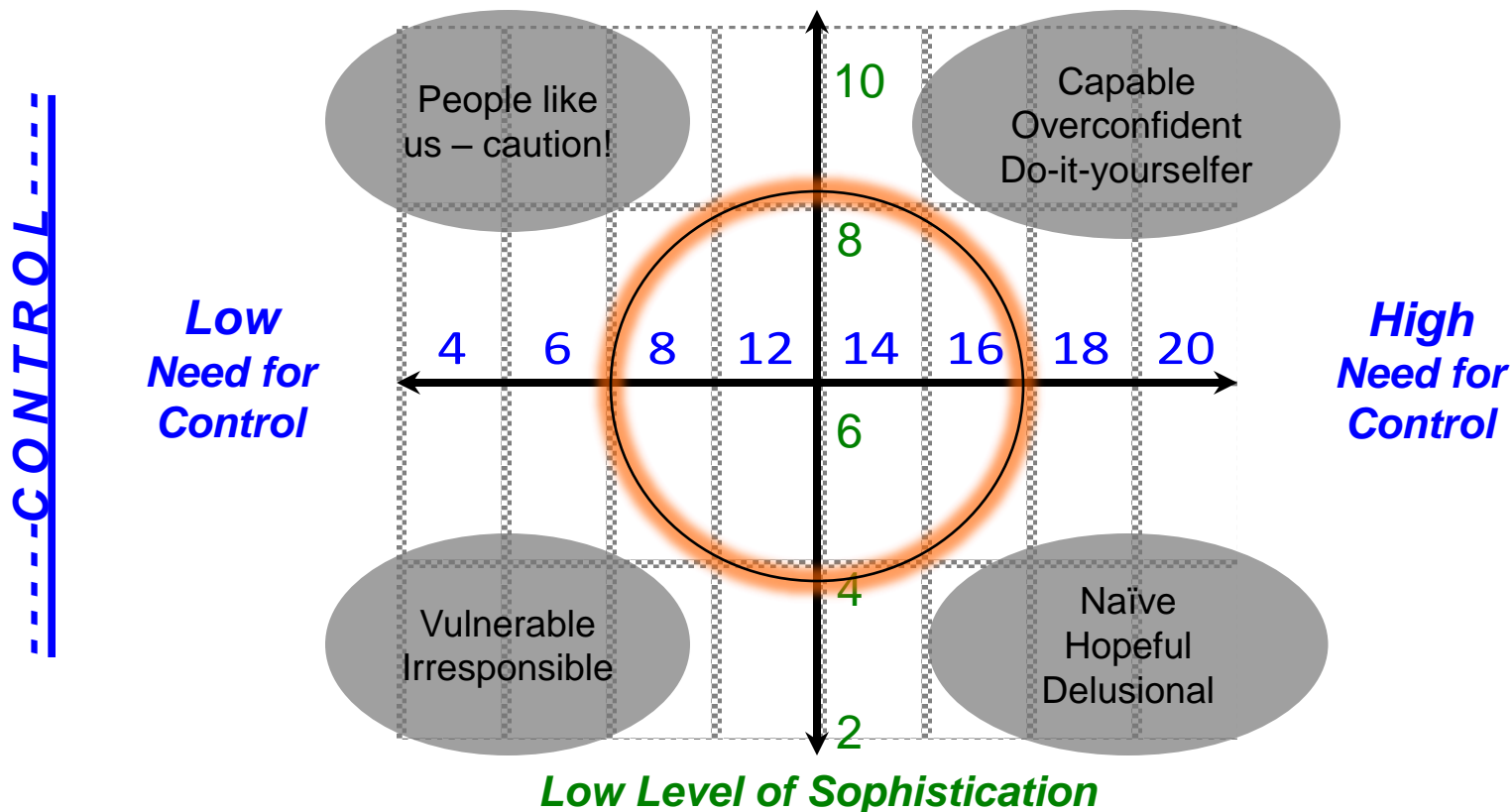
<sup>1</sup> – Taken from *Wealth Management Unwrapped* by Charlotte Beyer

# WHO ARE YOU & WHAT DO YOU NEED<sup>1</sup>?

ASSESS YOURSELF FOR KNOWLEDGE/SOPHISTICATION **AND** THE NEED FOR CONTROL

**-----KNOWLEDGE-----**

**High Level of Sophistication**



<sup>1</sup> – Taken from *Wealth Management Unwrapped* by Charlotte Beyer

# WHO ARE YOU & WHAT DO YOU NEED?<sup>1</sup>

## WHAT IS MOST IMPORTANT?

Assign a percentage to each according to your perception of what is most important to you - *the total must equal 100%*

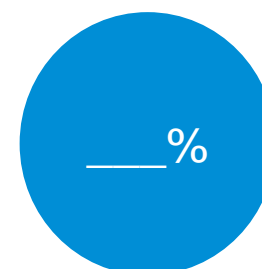
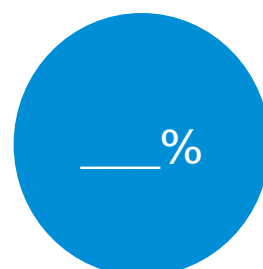
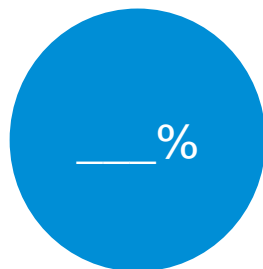
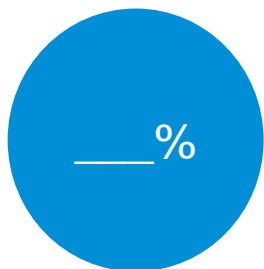
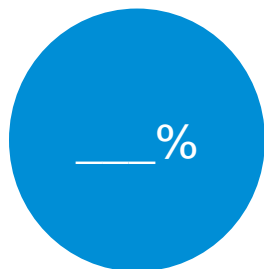
**People**

**Philosophy**

**Process**

**Performance**

**“Phees”**



**Who  
they  
are**

**What  
they  
believe**

**How  
Decisions  
are made**

**How  
have they  
done**

**What  
they  
charge**

<sup>1</sup> – Taken from *Wealth Management Unwrapped* by Charlotte Beyer

# WHAT DO ADVISORS PROVIDE?<sup>1</sup>

## KEY **QUESTION** – WHAT SERVICES DO YOU VALUE?

**TABLE 1: PRACTICE-TYPE DEFINITIONS, 2010**

Emphasis on Advice vs. Investment Management	Practice Type	Definition	Planning Services Offered
<p>Less</p> <p>Money Manager</p> <p>Wealth Advisor</p> <p>More</p>	Money Manager	Builds portfolios of individual securities for clients and focuses exclusively on asset management.	Securities selection, investment planning
	Investment Planner	Emphasizes asset management as the primary service; also may offer modular services such as retirement planning or education funding.	Asset management plus retirement and education planning
	Financial Planner	Develops complete financial plans for clients based on an extensive analysis of assets and liabilities.	Full range of planning services including income, tax, and insurance
	Wealth Manager	Specializes in comprehensive wealth management and transfer issues including stock-option planning, executive compensation, complex trust and estate planning, and charitable giving.	Complete range of planning services; emphasis on complex estate, charitable giving, and business planning

*Cerulli Associates, Cerulli Associates–Investment Management Consultants Association Advisor Surveys*

<sup>1</sup> – 2010 Survey of Advisors – published by IMCA first quarter 2011



# WHAT DO ADVISORS PROVIDE?<sup>1</sup>

**TABLE 7: SERVICES OFFERED BY PRACTICE TYPE, 2010**

Service	Money Manager	Investment Planner	Financial Planner	Wealth Manager	All IMCA Advisors
Asset Allocation	92.9%	99.8%	100.0%	100.0%	99.6%
Retirement Income Planning	66.1%	94.0%	100.0%	94.2%	94.6%
Retirement Accumulation Planning	66.1%	90.5%	96.1%	88.5%	90.9%
Investment Manager Due Diligence	57.0%	90.0%	84.0%	98.5%	88.4%
Estate Planning	21.6%	85.9%	97.0%	100.0%	88.4%
Insurance (life, health, liability, etc.)	37.0%	83.5%	98.1%	88.1%	86.3%
Education Funding	43.3%	84.5%	88.4%	81.5%	83.7%
Charitable Giving	22.8%	67.7%	80.4%	88.5%	72.1%
Employer Benefits Retirement Planning	7.1%	66.6%	84.4%	73.8%	70.1%
Cash Management	22.8%	66.3%	83.7%	70.8%	69.9%
Elder Care Planning	22.8%	63.0%	68.1%	50.0%	61.3%
Trust Services	42.5%	54.6%	66.0%	76.2%	59.9%
Tax Planning	22.8%	55.3%	64.0%	72.3%	58.6%
Business Planning	29.9%	52.4%	59.6%	72.7%	56.1%
Private Banking	14.2%	27.2%	33.8%	45.5%	30.8%
Concierge and Lifestyle Services	0.0%	25.7%	27.2%	35.0%	26.4%
Other Services	0.0%	0.5%	2.8%	6.2%	1.8%

*Cerulli Associates, Cerulli Associates–Investment Management Consultants Association Advisor Surveys*

<sup>1</sup> – 2010 Survey of Advisors – published by IMCA first quarter 2011

# REGULATORY SERVICE STANDARDS<sup>1</sup>

*SUITABILITY (Think “brokers/trading”) - **LOWER***

- ❖ *Know and Understand your Needs and Objectives*
- ❖ *On the basis of the above, recommend investments/actions that are **“SUITABLE”***

*FIDUCIARY (Think “advisor/planner”) - **HIGHER***

- ❖ *Know and Understand your Needs and Objectives*
- ❖ *On the basis of the above, recommend investments/actions that are in your **“BEST INTERESTS”** (i.e., higher priority than the advisor)*

<sup>1</sup> Excellent references and links on Gary Karz’s website - <http://www.investorhome.com/fiduciary.htm>

# ADVISOR QUESTIONS

Questions	Advisor 1	Advisor 2	Advisor 3
1. What is your education and professional background, what certifications do you hold? Also, do you have any continuing education requirements or policies you maintain?			
2. What legal practice standard (i.e., suitability or fiduciary) apply to your services and what (if any) are the professional ethics codes required by professional organizations with whom you maintain an affiliation?			
3. Have any of your professional designations or securities licenses been revoked or subject to complaints? If so, please explain.			
4. Do you prepare a written investment policy statement that describes objectives, assumptions, and the process for investment management for clarity and accountability?			
5. Explain how you get paid and any fees paid to others on my investments. How frequently is this information reviewed with me for evaluation and accountability?			

# ADVISOR QUESTIONS

Questions	Advisor 1	Advisor 2	Advisor 3
6. Is your investment program “open architecture” (i.e. specific investment solutions are not profit centers for your firm).			
7. How much time do you expect to spend with us regarding performance/objectives and how frequently will we meet/discuss?			
8. Does your investment consulting process include active collaboration with my other advisors (i.e. estate attorney, CPA, etc.)?			
9. Describe the due diligence process you use for identifying which investment products you use in formulating recommendations for clients.			
10. How do you measure my tolerance for risk in tailoring the investment plan for my asset allocation target and time horizon?			
11. What is your opinion on passive versus active investment solutions? (i.e., index versus actively managed funds)			

# ADVISOR QUESTIONS

Questions	Advisor 1	Advisor 2	Advisor 3
12. What is your long term career plan and do you have a succession plan for your business?			
13. Beyond investment activity, what other supporting services can you provide depending on client need?			
14. How long have you been working with clients in your capacity as a financial advisor?			
15. Can you describe whether (and why) there are any groups or categories of potential clients who you choose to avoid or decline?			
16. Can you describe how you manage potential conflict of interest situations (i.e., when there are outside influences that could potentially impact your view of client issues)?			

# CASE STUDY

Meet Jane –

- Her husband was the CEO of a local community bank until he passed away unexpectedly from a heart attack recently. His funeral was just held last week.
- They have one grown daughter, on her own with a husband and child, who lives in another state.
- Her husband had always handled their financial affairs and Jane frankly had never concerned herself with needing to get involved with that aspect of their situation.
- Jane comes to you, a friend, to ask your advice about what she should do regarding her financial situation as she has no clue.
- The conversation is a mix of mourning, tears, fear, and anxiety of what is to come.

***What actions and/or ideas would be most helpful in this situation?***

Phase 1 – ***Pick up the pieces***

Phase 2 – ***Reassurance - stay on task***

Phase 3 – ***Plan for a New Future***

Phase 4 – ***Own your Future***

# PHASE 1 – PICK UP THE PIECES

## ***Focus on short term needs versus longer term issues***

- Normal bereavement timeline can take up to 18 months...be patient...while you are perhaps more vulnerable, avoid signing contracts or making other long term commitments if possible
- Reach out to people well known (and trusted) to you for their opinions (i.e., family, Financial Advisor, CPA, Estate Attorney, Insurance agent, Employer's Human Resources contacts, etc.) to solicit appropriate recommendations for any immediate action, opinions on the professional practices of each advisor relative to other possibilities, and perhaps facilitate proactive collaboration among the support team
- Obtain survivor's financial checklists to ensure immediate issues are appropriately addressed
- Look at short term funding needs to get sufficient liquidity to pay immediate bills while still grieving

# PHASE 2 – REASSURANCE – STAY ON TASK

## ***Take your time / when possible defer significant financial decisions***

- Begin to develop a priority list of tasks based on time horizon and the need for action
- Outline areas in which you have some degree of knowledge versus those in which you will need guidance
- Assess who else (family, estate attorney, trust administrator, etc.) may or should be included in the process of getting you up to speed and in position to make financial oversight decisions (*who do you trust?*)
- Don't be afraid to ask lots of questions (it is better when you do) and ***trust your instincts*** in evaluating people and their recommendations
- Note those professionals who demonstrate patience and genuine empathy in working with you



# PHASE 3 – PLAN FOR A NEW FUTURE

## ***Growing confidence to address more complex financial topics***

- Take small steps in putting together pieces of your longer term plan (short term cash flow funding, any potential investment actions that need to be addressed (bond maturity and replacement, setting up income plans from annuities, government programs, retirement plans, etc.)
- Refresh your self assessment for areas you need to either have more expertise, or an advisor who has the appropriate skills to address them
- Review/Assess your advisory team – Specifically, if you have discomfort with anyone, consider soliciting opinions and/or engagement bids from other professionals to enhance your inventory of choices and ideas
- Begin to move forward in working on the longer term items from the priority list you developed in Phase 2

# PHASE 4 – OWN YOUR FUTURE

***With greater knowledge and self-confidence, major life decisions can be made - and you are comfortable managing your finances***

- Complete any strategic plans and move into implementation and oversight of your financial decisions with periodic review, assessment, and updates as appropriate
- Identify a routine process for managing your financial affairs and taking care of the important aspects (cash flow plans, investment management, estate planning, insurance and risk management, tax strategies, etc.)
- Consider annual reviews of the value added by your investment advisor (and/or team) with candid feedback and comments on areas that have done well and those that could be improved

# QUESTIONS...



# ADDITIONAL RESOURCES

## ***On Trust***

- [Building Trust: In Business, Politics, Relationships, and Life](#) – Robert C. Solomon and Fernando Flores
- [Daring Greatly: How the Courage to Be Vulnerable Transforms the Way We Live, Love, Parent, and Lead](#) – Brené Brown
- [Trust Inc.](#) – Nan S. Russell
- [Practical Wisdom](#) – Barry Schwartz and Kenneth Sharpe

## ***Regarding Survivors***

- [Moving Forward on Your Own: A Financial Guidebook for Widows](#), by Kathleen Rehl
- [Suddenly Single: Money Skills for Divorcees and Widows](#), by Kerry Hannon
- [Crucial Conversations: Tools for Talking When Stakes are High](#) by Kerry Patterson, Joseph Grenny, Ron McMillan, and Al Switzler
- [No Longer Awkward: Communicating with Clients Through the Toughest Times of Life](#), by Amy Florian

## ***Due Diligence for Advisors***

- [Negotiating Your Investments: Use Proven Negotiation Methods to Enrich Your Financial Life](#), by Steven G. Blum
- [Wealth Management Unwrapped](#), by Charlotte Beyer
- Nice 2 page checklist/description at the following website – [Due Diligence – How to Hire a Financial Advisor](#)
- CFA Institute downloadable listing of the [Statement of Investor Rights](#)

Resources/reading on the topic of ethics can be found at the following CFALA Link – [Advocacy and Ethics Reading and Resource List](#)