

COMMUNICATION RISK INVESTOR'S GUIDE

How to Get the Most
from Your Registered Advisor

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A Guide for Investors to Bridge the Client-Advisor Communication Gap

A QUALIFIED ADVISOR IS there for an investor like you: someone who wants to be set up for financial success but needs professional advice to get there. How can you make sure you are getting the most from your relationship with your advisor? The answer is in one word: **Communication**.

Even the best advisors cannot predict what financial markets will do. But what they can do is help you set reasonable goals based on history—yours and the market’s. A registered advisor can help you articulate what you want to achieve, draw up a plan to get there, and then—this is key—steer you through market shifts, helping you stick to your plan in good times and bad. If you don’t have clear goals and a clear investment plan, you run the risk of being overcome by fear and selling when markets fall.

The more well suited your plan is to your needs, and the better your advisor understands your risk profile and ability to ride out market spikes and dips, the more likely you are to achieve your objectives. This is where communication comes in. Your advisor must help you see what’s possible (and what isn’t), work with you to set reasonable goals, get to know what level of risk you are able to live with, and make sure you understand your plan and investments. The key to getting the most from your advisor is clear, open communication

from the outset about who you are, how you live, and what you want. Between the two of you, you can close the communication gap.

In my role as a lawyer, I have seen the results of relationships gone bad, mostly due to investors being disappointed about not having met their expectations and blaming their advisors. This often leads to complaints (to the investment firm and even to regulators), stress, and significant costs. I wrote this booklet to help you avoid this situation by revealing the importance of frank two-way communication between you and your advisor. The more open you are about your spending habits, finances, career, and personal life, the better your advisor can help you achieve your financial goals, and the more likely you are to achieve success.

I'm going to show you how you can foster this openness, what you should expect from your advisor, and how to work with your advisor to ensure that they hold up their end in the relationship.

The Benefits of Working with an Advisor

At some point, many people would benefit from professional help with their money, whether it is to set priorities during high-earning and high-cost years or to prepare for retirement. A registered advisor can:

- keep you on track when financial markets are volatile,
- temper your enthusiasm to buy when markets are rising, and
- calm your nerves when markets inevitably fall and remind you to stay the course.

Studies have shown that people who get professional investment advice achieve greater net worth because they avoid common behavioral investment errors. Why? Because their advisor helps them stick to their investment program, and sticking to your plan is an important factor for financial success.¹

¹ <http://www.ific.ca/wp-content/uploads/2013/09/IFIC-Value-of-Advice-Report-2011-November-2011.pdf/4000/> at pages 1, 5, and 9.

Why “Registered”?

I want to emphasize the word registered. Many of the problems that arise between investors and some so-called “advisors” involve those who allege to be experts in the financial services industry but are not registered, and they are not licensed to sell the products they are selling.

Registered advisors answer to government bodies that have the job of watching them and making sure they have the necessary proficiencies and are acting within the rules and in your interests. If they don’t, they can be penalized publicly. It is important to verify that your advisor is actually registered with a provincial securities commission, the Mutual Fund Dealers Association of Canada (MFDA), or the Investment Industry Regulatory Organization of Canada (IIROC). If your advisor sells you insurance, they must be registered with the licensing organization in your province.

A Professional Partnership

Registered advisors are professionals, like lawyers, doctors, dentists, or accountants. In the same way you might seek out a doctor with whom you feel comfortable and can trust, you should also seek out a suitable advisor who will take the time to understand your needs and goals. You and your advisor should sit on the same side of the table, working together as partners to achieve your financial goals.

What You Bring to the Table

A good advisor will bring a solid understanding of investment markets and products and a genuine desire to help you achieve your goals. But what do you, the client, bring?

If you want the relationship to result in success, you must deliver three critical things:

1. **Honesty and transparency:** Sometimes investors are reluctant to tell their advisors about their income, their assets, or their financial obligations. Other times, investors claim to be more comfortable with market dips than they really are. To enter into a partnership, you must be willing to give your advisor all the information they need—and they do need it—to fully understand your goals, risk profile, and what investments will be most suitable for you at different points in time. These things will change with your circumstances, so you must keep your advisor updated throughout the relationship. Without this information, your advisor will not be able to do the best job for you. Being open and honest, both with your advisor and with yourself, lays the foundation of trust that is so essential to a successful partnership.
2. **Openness:** Express yourself: your hopes and fears, your dreams and aspirations, how you feel about money, and your views about investing. Were you in the stock market during the last big meltdown? If so, how did it feel? Did you sell or hang on? Helping your advisor understand how you see things will let them pick investments more suitably aligned with your risk profile.
3. **Regular contact:** Keep your advisor informed about every change that comes your way—for better or worse—that might impact your financial situation. As an investor, sometimes it can be easy to forget to call, or sometimes you may feel embarrassed about life events that could affect your financial plans: a lost job, a sudden debt, even a divorce. These are important events to share with your advisor. Your advisor is your partner and can help you adjust your investments to meet unexpected short-term needs, and then help you get back on track for the future. If you do not tell your advisor about your changed financial circumstances, you are not going to get the help and support that you need during difficult times. On the other side of the coin, maybe you will receive a bonus, promotion, new job, or an inheritance. Some investors keep this to themselves, for fear of being pressured to “hand it all over.” But if your advisor doesn’t know about it, they can’t help you use it to meet your goals. Don’t want to hand it all over? Just

tell them you want to keep a chunk of it. You deserve it! Your advisor is not there to grab your money or make you feel ashamed or embarrassed. Your advisor is there to serve you. But they cannot serve you properly if you are not transparent.

Keep in mind that it is your advisor's duty to find out about your financial circumstances—there are even regulations specifically about this area, called the Know Your Client rule. So if your advisor seems to be pressing you for information, don't consider this invasive. Instead, know that they are looking out for your interests and meeting regulatory obligations. If you aren't providing information, and your advisor is not trying to dig deeper, that is when you should start to wonder.

How to Have an Advisor as a Partner

Creating a partnership with your advisor starts with setting the right foundation for the relationship. Follow these three steps to make sure that your foundation is solid.

Step I: Dos and Don'ts

If you are just looking to buy the latest hot stock, you may be better off using an online or discount broker. But, increasingly, investors are seeking help with financial planning, which might include investment, tax, retirement, and estate planning. If this is you, take your time, reflect on what you want out of the relationship, and choose carefully. I have explained why you need to be open and transparent with your advisor, but that relationship is a two-way street. Here are some Dos and Don'ts to ensure your advisor is going to be a true partner for you in meeting your financial goals.

DO	DON'T
<ul style="list-style-type: none"> ✓ Choose an advisor with whom you feel comfortable and who you feel has the competencies and services you need. 	<ul style="list-style-type: none"> ✗ Don't choose your advisor on personality alone. As with any professional—a doctor, for example—your advisor must be competent, not just a pleasant person.
<ul style="list-style-type: none"> ✓ Consider in advance what you want, and do not want, from an advisor. Do you want a financial plan, annual or semi-annual meetings, a diversified portfolio, or certain types of investments? 	<ul style="list-style-type: none"> ✗ Don't change advisors before you: a) explain why you are dissatisfied, b) give them a chance to tell you why you have not met your goals, and c) consider the cost of moving to a different advisor.
<ul style="list-style-type: none"> ✓ Choose an advisor with whom you feel you can share your personal information, history, and concerns. 	<ul style="list-style-type: none"> ✗ Don't be passive or silent, or accept an advisor who talks too much and doesn't listen or probe into what you are saying and what you mean.
<ul style="list-style-type: none"> ✓ Express your expectations. Be transparent about whether you know what your needs and wants are. Be flexible, and open to suggestions, as a good advisor might hit the nail on the head in a way you never considered but that makes sense to you. 	<ul style="list-style-type: none"> ✗ Don't be embarrassed to ask questions.
<ul style="list-style-type: none"> ✓ Consider whether your expectations are different from your life partner's/ spouse's, and ensure the advisor can accommodate any differing expectations. Consider whether a joint investment account with your partner/spouse is appropriate if you have completely different risk profiles. 	<ul style="list-style-type: none"> ✗ Don't be afraid to tell your advisor that you are leaving because they don't treat you as an individual if they only speak to your spouse/partner.
<ul style="list-style-type: none"> ✓ Choose an advisor with whom you feel comfortable asking questions and who answers your questions clearly and directly. Tell your advisor what you know and don't know so that they can explain things appropriately. 	<ul style="list-style-type: none"> ✗ Don't accept answers that you do not understand, including acronyms or industry terms. An advisor should never make you feel stupid about any questions you ask.

<p>✓ Learn to read your statements so that you can understand what you are investing in and how your investments are performing. Open and review all mail you receive, and get your advisor to teach you what is more and less important.</p>	<p>✗ Don't pick an advisor who tells you not to bother reading anything.</p>
<p>✓ Develop criteria to judge your advisor, such as whether milestones are set and whether you achieve them.</p>	<p>✗ Don't prejudge your advisor based solely on the returns of your investments. It is also important to consider the goals you set.</p>
<p>✓ Always ask your advisor what level of service you can expect with a portfolio like yours, and whether your portfolio is too small to get proper service.² It might be better to open a discount or robo account until you have saved a certain sum. You can also explain to your advisor your plan to reach their minimum balance.³</p>	<p>✗ Don't assume that every advisor will service small accounts.</p>
<p>✓ Consider value, and whether you believe the advisor can help you formulate a plan to meet your financial goals.</p>	<p>✗ Don't just go for the advisor with the least expensive fee or commission structure.</p>
<p>✓ Ask how the communication and coordination with other professionals (e.g., lawyers, accountants, insurance agents, or portfolio managers and planners) will be carried out, depending on your advisor's certifications for the services provided.</p>	<p>✗ Don't believe anyone who says they can time or predict the market. No one in this industry has a crystal ball.</p>
<p>✓ Develop milestones for one, three, five years or more, and assess regularly whether these are being achieved.</p>	<p>✗ Don't be too rigid about short-term returns. Remember, a market cycle can be three to five years long and it wouldn't be fair to judge your advisor until at least one cycle has passed.</p>

² "The financial advice industry's bad client problem," by Rob Carrick, *Globe and Mail*, January 30, 2017.

³ *Ibid.*

Step II: Discussion Points for Success

Now that you understand the Dos and Don'ts, allow me to suggest the following considerations to discuss with your advisor to set up the relationship for success.⁴

1. **What is your advisor licensed to sell?** Find out what products the advisor is licensed to sell and what they are not permitted to sell.
2. **Do they have additional certifications?** Do they have additional qualifications, like financial or tax planning certification, or are they also a certified accountant?
3. **Are they experienced?** Have they worked with people like you before, in terms of age, assets, or any particular requirements? Do they have the necessary experience to address your particular issues and goals?
4. **How are they compensated?** Ask how they get paid and how it is calculated. If you feel uncomfortable bringing it up, bring this guide and use it to break the ice. Remember that the least expensive option is not necessarily the best value. Consider what they are bringing to the table.
5. **What are their resources?** Ask the advisor which dealer or company they are affiliated with or licensed through. You will want to know their resources, who else is on the team, what role they play, how much access you will have to the advisor, how often they will meet with you, and for what purpose.
6. **What are the logistics associated with meetings?** If your advisor is far from you, consider how you will be able to arrange meetings, and factor that into your decision.

⁴ These points have been adapted from “Seven criteria for finding the right advisor,” by Brenda Bouw, *Globe and Mail*, February 10, 2017.

7. **What is their process?** Ask what process they will follow to develop and meet your goals. If this is an existing relationship and your advisor has not yet made this clear, ask them to make it clear now.

Step III: Maintaining the Relationship

Now that you have established a solid foundation on which to build your client-advisor relationship, the final step is to develop and maintain good communication practices. This involves a little bit of effort and presence of mind, but it is critical to the long-term success of the partnership.

Setting Reasonable, Measurable Goals

If you are transparent, and your advisor is transparent with you, the two of you (often together with a planner, accountant, and potentially other advisors) will establish goals, along with a roadmap for meeting them. It is both of your jobs to make sure the goals are reasonable and measurable.

Let's say you and your advisor set a measurable goal to save and invest a specified sum each month, with a forecasted average return per year over five years. The important thing is not how your investments are doing right now, or a week after you make the investment, but instead whether you are on track to meet those longer term goals.⁵ You can assess progress periodically to determine if both you and your advisor are working in tandem to meet your objectives. If not, you might have to make some adjustments which should be discussed with your advisor.

Be Committed to Your Plan

Once you have a financial plan, don't throw it in a drawer to collect dust. Your advisor should not do this, either. Keep yourself in line by managing your savings, spending, and debt according to what you set out in your plan. Meet with your advisor at least once a year to review the plan and the underlying assumptions to ensure you are still on track.

5 "The financial advice industry's bad client problem," by Rob Carrick, *Globe and Mail*, Jan. 30, 2017.

Don't Rush, or Be Rushed

Your advisor is responsible for understanding you and for making a plan that is suitable to you and your needs and goals. You are responsible for investing the time it takes to make sure your advisor can be effective. You both need to allow time for:

- letting your advisor get to know your values and financial situation so they can determine your risk profile and objectives,
- thinking through and determining what questions you need to ask,
- allowing your advisor the opportunity to explain product features and costs, and how certain products will contribute to meeting your goals; if you don't understand your investments, you cannot judge whether they are the right fit for you, and
- reading and understanding any material your advisor gives you. Sometimes these can be confusing, so keep asking questions.

Remember, you must take as much time as you need to understand what your advisor is telling you and showing you—and, in turn, your advisor needs to give you that time and make sure you are communicating together effectively.

A Last Word on Transparency in Communication

I've mentioned transparency several times, and I'll mention it here once more. Why? Because it is critical for a successful client-advisor relationship, and transparency goes both ways.

Meeting your goals, through a financial plan or otherwise, can only be achieved with effective communication between you and your advisor. If you hold back information, including private and personal details, your advisor cannot properly assess your goals or help you plan for a successful future.

Let's say you don't want to share information about your income and spending habits. Your advisor will not be able to accurately determine how much you can afford to save, how much money you need to cover costs in the short or long term, and how much you need to meet larger goals, such as saving to buy a house, for retirement, or for any succession plan associated with what you would like to leave your beneficiaries after your passing.

Remember, you are paying for your advisor's service, and they can't provide that service if they don't have the facts. Whatever your spending obligations or habits, admit it. If you are afraid to divulge your income because you don't want to be pressured to save more, then say so. Your advisor can only build a meaningful plan if they understand your limitations. A plan built on untruths will be useless to you, or worse.

If you don't want to share information with your advisor for the simple reason that it is personal, tell them this, up front, rather than being evasive or misleading. But don't be surprised if they try to persuade you to change your mind. Their job is to know these details so they can help you meet your goals.

What's Next?

Do you have concerns about your advisor? If so, call them and ask to discuss the points raised in this booklet. By opening up the lines of communication, you may be able to reframe your relationship and move forward more successfully.

Remember, switching advisors costs money. If you find yourself jumping from one advisor to another, consider your side of the relationship. Are you contributing to the failure of the relationship without realizing it? Assess the advice in this booklet and consider whether you might be undermining your chances for financial success by not being transparent about your situation, your needs, your habits, and your goals.

Investors Take Action

How does this all sum up? Whether you are working with someone new or rebuilding an existing relationship, here's what you need to do to fulfill your end in developing a successful client-advisor partnership:

- ✓ Get involved, participate, and meet your advisor halfway.
- ✓ Examine your relationship with money, and be transparent about it with yourself and your advisor, so together you can shape a plan to meet your goals.
- ✓ Work with your advisor to bridge the communication gap—both ways!—so that you can reach your own financial success.