

KYA - Know Your Advisor

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A Personal Finance and Investing Blog written by Preet Banerjee, B.Sc., FMA, DMS, FCSI

Part II: Advisor Scorecard

Enter scores for each question in boxes

Section 1: Candour

1. Are you a full-time financial advisor and/or does the bulk of your time/income pertain to your duties as a financial advisor? Or do you have any other part-time jobs not specifically related to providing financial advice to clients? Exceptions: community involvement, non-profit organizations, instruction facilitator, etc.

Yes, they are a full-time financial advisor and the bulk of their income and time pertains to financial advice.

5 Points

No, they have other jobs that take up a substantial amount of their time, or that they derive the bulk of their income from.

0 Points

2. Does the advisor openly and plainly discuss their preferred method of compensation and compare them to the other options available to investors?

Yes 0 Points

No 5 Points

3. Do you predominantly use investment products manufactured by your own company?

- Yes **0 Points**
- No **5 Points**

Section 2: Qualifications and Competency

1. How long have you been in the financial services industry?

- 20 years + **10 Points**
- 15 years + **9 Points**
- 10 years + **8 Points**
- 5 years + **6 Points**
- 2 to 5 years **4 Points**
- Less than 2 years **2 Points**

2. What kind of investment management designation does the advisor possess? NOTE: Pick the first answer (reading from top to bottom) that is true.

- Masters degree in Accounting or Finance **5 Points**
- CFA **5 Points**
- Undergraduate degree in Accounting or Finance **4 Points**
- CIM, DMS or FCSI **3 Points**
- CMT, CAIA, or FRM **2 Points**
- CIMA **1 Points**
- None of the above **0 Points**

3. What kind of financial planning or tax designations does the advisor (or members of their team) possess? NOTE: Pick the FIRST answer (reading from top to bottom) that is TRUE.

- CA or CGA designation **5 Points**
- RFP or CLU **5 Points**
- CFP, Ch.F.C., or Ch.P. **4 Points**
- TEP, CDFA, PFP, or FMA **3 Points**
- CSA, EPC, or RHU **2 Points**
- None of the above **0 Points**

4. Is the advisor (or at least one member of their team) licensed to advise and sell life insurance policies?

- Advisor is “life-licensed” and insurance planning is part of financial plan for all clients. **5 Points**
- Advisor is “life-licensed” but does not really discuss life insurance strategies with clients, mostly just investments. **2 Points**
- Advisor is not licensed to sell life insurance. **0 Points**

Section 3: Client Services Offered

1. Does the advisor provide clients with an IPS (Investment Policy Statement) and can they provide you with a sample or copy? An IPS clearly describes the portfolio management process in advance of changing market conditions and clients' changing personal situations

- Yes **10 Points**
- No **0 Points**

2. What kind of Financial Plan does the advisor provide to clients? (Make sure to see a sample) Select the closest answer.

Financial Plan includes investment planning, budgeting, insurance, estate planning, and tax planning. The advisor has a set of tax and legal professionals that are third party members of his/her team that are used regularly. **5 Points**

Financial Plan includes investment management, insurance planning and some general tax suggestions. No third party professionals are regularly used for tax and estate planning. **3 Points**

"Financial Plan" consists of some charts with projected investment growth and/or life insurance projections that don't really make sense to a layperson. **1 Point**

Nothing provided in writing with respect to planning or action strategies. **0 Points**

3. Does the financial planning process include discussions about goal setting for various different life events? (Retirement, education funding, lump sum expenditures and other goals)

Yes – advisor commits to having specific discussion about goals important to client over and above investment goals. **5 Points**

No goal setting process for client's financial goals, and it is not incorporated into the financial plan. **0 Points**

4. Does the advisor provide a written summary to you of all meetings which recaps the topics discussed, recommendations and next steps?

Yes **5 Points**

No **0 Points**

5. How many people (including the advisor) are on the team?
Only include people who work EXCLUSIVELY with/for the advisor (do not include shared assistants, insurance consultants, or others who work with many other advisors in the same firm).

- 1 0 Points
- 2 3 Points
- 3 or more 5 Points

6. Select the answer that best reflects the advisor's client service protocol...

- Annual face-to-face meeting at a minimum, quarterly newsletter or phone call from advisor or assistant, pro-active calls during market declines as necessary. 5 Points
- No regular newsletter or phone call, but contact at least once per year. 2 Points
- Irregularly scheduled contact and many conversations are focused around transactions (new products, switches, life insurance, etc). 0 Points

NOT COMPLETED YET
DO NOT USE

Section 4: Knowledge Test

1. Ask the advisor "What is the definition of "Beta". DO NOT READ THE POSSIBLE ANSWERS TO THEM. Let them provide the answer on their own and see if it matches the definition given below.

Beta is a measure of how volatile a portfolio is compared to it's benchmark index OR Beta is the measure of sensitivity to the market factor. **5 Points**

All other answers are wrong if they don't sound remotely like the above statements. **0 Points**

2. Ask the advisor: According to the Standard & Poor's SPIVSM Scorecards which are updated quarterly, over periods of 5 years and longer, approximately what percentage of actively managed large cap funds are able to outperform their benchmark indexes?

- 10% **5 Points**
- 50% **0 Points**
- 90% **0 Points**

3. Ask the advisor: You purchase 50 shares of stock ABC for \$2/share. You later sell 10 shares of stock ABC for \$2/share. Your marginal tax rate is 50%. How much tax do you owe on the sale of those 10 shares?

- \$25.00 **0 Points**
- \$50.00 **0 Points**
- \$12.50 **5 Points**
- \$0.00 **0 Points**

4. A 70 year old man with a \$100,000 RRSP dies. He named his sister, whom he was living with, as his RRSP beneficiary. Will he, or his estate, have to pay tax if the sister immediately puts the money into her RRSP?

- Yes **5 Points**
 No **0 Points**

5. Ask your advisor if their firm allows the regular sale of index funds (without penalty or decreased compensation to the advisor for choosing to do so). Are they readily available?

- Yes **5 Points**
 No **0 Points**

Add up all the points to calculate the advisor's score:

Advisor's name and contact details for future reference:

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DO NOT USE