



# Consumer'sGUIDE

for financial and investment advice

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# Getting the Most from Your Professional Financial Advisor Relationship



Life is busy, and we are pulled in many directions on a daily basis. Some things we do ourselves. But certain tasks and responsibilities call for an expert, a professional, an advisor. To maintain health, we seek a doctor's advice to keep us alive and healthy as long as possible. A financial advisor's job is to help your wealth last as long as you do.

Working with a financial advisor can seem complicated at first. Advisors can offer different services, and some have areas of specialization. There isn't one type of advisor who is right for everyone, but there is a right advisor for you. In many ways, it is the same process as choosing a medical or legal professional. You are looking for someone:

- Who is qualified
- Who understands you
- Who understands your unique needs and goals
- Whom you respect

Whether you've already found that advisor, or are currently seeking one, there are some things you can do to get the most out of the relationship. This guide will help. It outlines what services financial advisors typically provide, and summarizes what they can and cannot do for you. You will learn:

- What services you can expect
- What happens behind the scenes (lots)
- What you can do to support your own interests
- How to create and keep a solid relationship with your advisor
- How your advisor is paid for his or her expertise and professional services

Use this guide to introduce an open dialogue that leads to a stronger and more effective working relationship.

There are different designations and qualified financial professionals, including investment advisors and financial planners. Throughout this guide we will use the term financial advisor as a broad term including all financially qualified professionals.



# Getting to Know Your Financial Advisor—Even More

## What Makes a Professional Financial Advisor?

This checklist outlines the many qualifications to look for in a financial advisor.

It's a long list, with important responsibilities. If you aren't sure which qualifications your advisor has, you can use this list as a guideline in your discussions.



If you already have an advisor, give some thought to how much you know about your advisor's education, experience and qualifications. You may have originally met your advisor through a friend, or by walking into a local financial advisor's office—and therefore believed they were qualified to manage your money.

### Proficiency

Has completed professional education that qualifies him or her to advise you on aspects of your financial needs. For more information on designations and credentials and what they mean, visit [www.iiroc.ca](http://www.iiroc.ca)

### Licensing

Must be licensed and registered to offer investments, and licensed to offer insurance

### Registration

Qualifies your advisor to deal in different financial products or securities on your behalf. What self-regulatory organization your advisor is registered with will determine what products and securities are at his or her disposal

### Experience

Demonstrates capability in helping other clients achieve their financial goals; provides testimonials and references

### Regulatory Oversight

Must meet specific conduct standards subject to regulatory oversight

### Ethical Standards

Must uphold an ethical code for certain designations or his or her firm and may face disciplinary action for violations

### Investment Knowledge

Must be well versed and up to date with all investment-related products and portfolio-construction techniques

### Business Knowledge

Is current on key economic, public affairs, taxation, and business trends

### Technological Knowledge

Must use investment industry software/tools with a high degree of competency and efficiency

### Financial Planning

Must be well versed in all critical areas of financial planning in order to address your financial goals and objectives

### Continuing Education

Engages in voluntary and/or prescribed formal continuing education annually

### Reporting/Record Keeping

Provides comprehensive reporting and record keeping with respect to your accounts

### Professional Insurance

Must carry errors and omissions (E&O) insurance, just like other specialized professionals

### Certification

Requires specific certification for some duties (e.g., to administer trusts and estates)



# Professional Advice. Not Personal Opinion.

Professional advice is different.

Professional recommendations are made as a result of in-depth knowledge of the subject matter, and while adhering to specific standards that protect client interests.

Professionals are experts in their fields. Their recommendations have consequences for the advice-giver and the advice-taker and must reflect insight and prudence. That's why they're subject to regulatory scrutiny.



People share recommendations all the time. Sometimes they're based on real experience and knowledge, but often they're just personal opinions.

## Why is Professional Financial Advice Important?

Some activities can be done equally well by professionals or non-professionals.

Most people don't need to hire a master carpenter to glue two pieces of wood together. But a made-to-order mahogany cabinet featuring intricate joints, fine inlays and antique brass fittings is another matter.

It doesn't just require talent, it also demands time, focus, energy, precision—and experience—to do it right.

If all the financial needs you have for the rest of your life can be taken care of with a chequing and/or a savings account, it's like gluing two pieces of wood together. Anyone can deal with it. But that's not the reality for most Canadians.

With all of the types of accounts and investment solutions available today, even with modest savings, your financial needs probably are much more like that custom-designed mahogany cabinet few of us could hope to build on our own.

A professional financial advisor is like a master carpenter when it comes to your money goals. Consider some specific advice-based services you do (or can) receive.



# What Your Financial Advisor May Do for You



Financial planning and plan updating, including goal setting and cash flow monitoring

Portfolio-building, re balancing and ongoing management

Investment review, selection, purchases and sales

Tax planning and strategies designed to maximize after-tax returns

Product education (e.g., about investment vehicles and insurance products that address specific life events)

Financial coaching (i.e., goal reinforcement to maintain focus in times of uncertainty)

Ensuring legal/regulatory compliance (e.g., preventing over-contributions to registered accounts)

Integrating financial strategies across accounts or people (e.g., between spouses and children)

Maintaining working relationships with other service professionals from whom you get advice

Drafting and providing market commentaries to assist in sound decision-making

# Three Benefits of Professional Financial Advice

## 1. Provides customized investment strategies and financial planning .

Your advisor builds an integrated and customized financial plan designed to help you achieve your life goals.

Advisors can help you prioritize your life goals—such as buying a home, saving for a child’s education or planning for retirement.

Advisors have the expertise and resources to recommend the right strategies to help you achieve your goals.

Your advisor will help you build a comprehensive plan for the long term that will consider the financial implications of living too long, dying too soon, becoming sick or disabled.

## 2. Keeps you rational.

Emotion can lead to poor and expensive decisions; advisors help you stick to your long-term plan.

Emotions can disrupt sound decision-making, especially when it comes to money. Advisors provide calm, rational guidance, removing the “clouds” of negative emotions.

Ensuring that clients don’t make knee-jerk reactions to temporary events can prevent short-term market reversals from becoming real financial losses.

## 3. Saves time.

Ensures you can lead your life without having to constantly manage your investments.

Competent investment management is a full-time job.

Advisors monitor your investments full time, keeping a watchful eye on key changes.

Advisors stay on top of trends, opportunities and challenges on behalf of their clients, so they can take proper action when needed.

Advisors work with you to review and revise your financial plan to keep it aligned with changes in your life such as a marriage, divorce or health issues.

## Evidence of the Benefits of Professional Financial Advice

Independent, third-party research shows professional financial advice supports prosperity:

“...having a financial advisor contributes positively and significantly to the accumulation of financial wealth.”—Dr. John Cockerline, PhD, *New Evidence on the Value of Financial Advice*, Center for Interuniversity Research and Analysis on Organizations (CIRANO), November 2012. Available from the Investment Funds Institute of Canada.

“People who receive financial advice accumulate significantly more financial wealth, are better protected, and are better prepared for retirement and unexpected events than people who do not receive advice.”—Advocis, The Financial Advisors Association of Canada, *Client Connect: The Value of Financial Advice*. Based on *New Evidence on the Value of Financial Advice*, CIRANO 2012.

“Each of [the] five Gamma components creates value for retirees... From a more holistic perspective, each of these Gamma concepts can be thought of as actions and services provided by financial planners.”—David Blanchett, CFA, CFP, *Alpha, Beta, and Now...Gamma*, Morningstar, August 2013.



# Planning: Providing For Your Future Well-being



A solid financial plan is pivotal to your material well-being.

Developing a personalized financial plan that reflects your goals, risk tolerance and time horizon is perhaps your advisor's most important duty because it serves as an anchor for future investment decision-making, and a blueprint for achieving your financial objectives.

You might think that crafting a plan is straightforward: identify your financial goals, assign assets, monitor occasionally. *It is never that simple.*

## Financial & Investment Planning: What Does it Involve?

### It Means Making Hard Choices

Consider key milestone events such as buying a home, paying for post-secondary education, preparing for retirement, paying off debt, and being ready for emergencies. Recognizing that you may have to deal with many—or all—at once. It is hard to decide what can wait and how to achieve all our financial goals.

### It Means Making Smart Choices

Effective financial planning and investment management requires determining the most suitable products and/or asset allocation for your unique needs. This is a dynamic process, not a one-time exercise. Your advisor can help you make smart choices that align with your long-term goals.

### It Means Making Ongoing Choices

Your goals, portfolio positioning or financial situation may change—and this can require changes to your investment plan. It is time consuming to monitor and manage your portfolio on an ongoing basis, especially with all the other demands on your time.

Most of us can't plan expertly. Even if we could, we lack the time, expertise, technical resources and objectivity to do it properly over time.



## The Better Way: Partnering With Your Advisor

You trust an educated professional when it comes to your health, your teeth, your legal needs—and more; it makes sense to do the same when it comes to your financial well-being. The sensible approach is to partner with your financial advisor to create and maintain a personalized financial plan. Your advisor offers:

**Experience** gained from developing plans for many other investors with a variety of life circumstances

A measure of **objectivity** that reminds you to keep emotions out of financial decisions

Technical financial industry knowledge and **insight** honed through education and ongoing professional involvement

The value of his or her **access** to specialized financial planning technical resources that enables scenario planning necessary for optimal asset allocations and product recommendations

The **acumen** to identify what is important in the context of volumes of data and thousands of potential investment and insurance options

Getting the most from your financial advisor starts with you. To have a successful relationship, you must be aware of your own satisfaction drivers:

**Interaction Style** Do you prefer an expert who does it all or a collaborator-partner?

**Evidence of Expertise** Do credentials matter more than real-world experience, or vice-versa?

**Involvement Level** Do you do better with lots of hands-on attention or timely strategic counsel?

**Investment Approach** Do you want a strategy that is more aggressive or more conservative?

**Experience Level** Do you favour the grey hairs of wisdom or the fresh face of youthful energy?

Working well with any advisor begins with a self-assessment of what you expect from your relationship. Once you're clear about your priorities, you can have a focused conversation about how the relationship can work best.



# Making the Relationship Work for You and Your Advisor

## What You Need to Know About Your Advisor

Now let's get to know your advisor. These next 10 questions will tell you a lot about any advisor—many apply only to new relationships, but some are always relevant.

## What Your Advisor Needs to Know About You

Your advisor will need specific information to advise you properly. What you share will be held in confidence, except where it must be reported to meet regulatory and administrative obligations.

## 12 Questions to Truly Know Your Advisor

1. What is your educational and professional background? Ask about current designations, how they were earned and how they're kept current.
2. How many years have you been actively providing clients with financial and/or investment advice?
3. What is your standing with the regulators? Are there any issues I should know about?
4. Who is your typical client (in terms of portfolio size, income, career, education level, etc.)?
5. How many clients like me do you currently work with?
6. What is your philosophy about investing? Is there anything you would never invest in?
7. How do you go about building portfolios for clients? What sort of investments do you use?
8. How do you go about building a financial plan for clients? What sort of products do you typically recommend?
9. What services may I expect from you and how will they be provided to me?
10. How will we work together and how do you expect to be compensated?
11. What is your experience working with the other professional advisors (i.e., lawyers, accountants) your clients may have?
12. If we decide to work together and something goes wrong such as an error on your part, do you have sufficient liability insurance to cover things like that?

## 12 Questions Your Advisor May Ask You

1. What are your top financial goals: Retirement? Post-secondary education for your kids? Estate planning?
2. What are your top financial concerns: Managing debt load? Running out of money in retirement? Becoming sick or disabled?
3. Tell me about the people in your life who depend on you financially?
4. How do you earn your living, and what cash flow does it provide you?
5. What is your annual income, and how much can you set aside for investing after taking into account any debts?
6. What is the size of your entire portfolio, including all assets you hold?
7. Do you own real property (a house or condo, etc.), and if so what is its current worth?
8. Would you say you're more afraid of a loss or of not making a certain gain?
9. How familiar are you with various financial vehicles such as investments, insurance products, tax-advantage plans (e.g., TFSA, RRSP)? Tell me what you know about each one.
10. Are there investments you will not hold because they conflict with your personal values?
11. Do you have preferences about how we will work together and how you will compensate me?
12. Have you thought about when you will need your invested funds to be available to you?



# Paying for Advice: Total Transparency



If you have questions about what you're paying, speak with your advisor. Even if you're completely satisfied, you should be aware of this.

As with any professional, your advisor deserves to be paid a fee for his or her knowledge and expertise. The compensation style and structure can vary by advisor and type of holdings in your portfolio and products purchased. But you should know how your advisor is compensated—and how much. In some cases, advisors will charge a flat rate for particular services, such as creating a financial plan, however, in Canada advisors are typically paid one of two ways: embedded commissions or fee based.

## Embedded Commissions

These fees are paid to the advisor by the product provider—such as a mutual fund company or insurance company—as a component of a product's total expense. This fee is often referred to as a trailer fee, and is based on a percentage of your assets.

## Fee Based

In this case, the advisor's fee is not included in the product's total expense, and is charged to your account separately by the advisor. It is also typically billed as a percentage of your assets.

Just as you can see each cost component on your electricity and/or phone bill, so too you can see the different elements that make up what you pay for your investments—and the advice that guides them.



# Keep the Value Dialogue Going

Working with a professional financial advisor is a two-way street. They value open, trusting conversations with their clients and genuinely want to help them achieve their financial goals. So speak up! In the end, what's best for you is best for your advisor. And he or she knows it.

## Credentials—Distinguish the Difference

As with many professions, there are different areas of focus and specialty for advisors. There are a number of certifications and designations, and each comes with specific qualifications and levels of service. The first two listed below are the minimum licensing requirements to be able to sell mutual funds/other investments in Canada. A few of the most common designations are outlined in the table below. For a more extensive list of designations, and associated qualifications, visit: <http://www.iroc.ca/investors/understandfincert/Pages/default.aspx>.

	Title	Overseeing organization	Description	Requirements
CSC	Canadian Securities Course	Canadian Securities Institute (CSI)	The CSC fulfills the base securities licensing requirement for IROC and the provincial regulatory and MFDA licensing requirements for mutual funds sales, managed future funds/commodity pools, exempt securities and labour-sponsored investment funds.	1. Pass two multiple-choice exams (60%+) within one year of registration.
CIFC	Canadian Investment Funds Course	The Investment Funds Institute of Canada	The successful completion of the Canadian Investment Funds Course Exam is a proficiency requirement by the provincial securities commissions for mutual fund licensing.	1. Complete an online course. 2. Achieve 60% or higher on the final exam.
CFP®	Certified Financial Planner	Financial Planning Standards Council (FPSC)	The CFP designation is recognized for excellence in financial planning. A CFP professional has achieved and maintains internationally recognized standards of competence, practice and ethics, including the obligation to put clients interests first.	1. Core Curriculum education program 2. Capstone Course 3. Two standardized national certification examinations 4. Three years of qualifying work experience 5. Adherence to FPSC's Code of Ethics, Rules of Conduct and Practice Standards 6. Completion of annual continuing education
CIM®	Chartered Investment Manager	Canadian Securities Institute (CSI); endorsed by the Investment Industry Regulatory Organization of Canada (IIROC)	Licensed individuals are qualified to provide discretionary investment management for clients.	1. Three to four qualifying courses through the CSI. 2. Two years related work experience
FCSI®	Fellows of the Canadian Securities Institute	Canadian Securities Institute (CSI)	According to the CSI, the FCSI is the pinnacle credential in Canadian financial services, a rare combination of industry expertise, advanced education and unparalleled ethical standards to financial services.	1. Has earned a financial services designation. 2. Complete additional courses. 3. Seven years of industry experience. 4. Adhere to a stringent Ethical Conduct Statement.
CFA®	Chartered Financial Analyst	CFA Institute	The CFA Program bridges industry practice, investment theory, and ethical and professional standards to provide investment analysis and portfolio management skills.	1. Pass three 6-hour exams. 2. Complete 4 years of relevant work experience. 3. Adhere to a strict Code of Ethics.
CLU®	Chartered Life Underwriter	The Institute for Advanced Financial Education (The Institute)	According to The Institute, the CLU is Canada's premier wealth transfer and estate planning designation.	1. Four Prerequisite Courses 2. Three Additional Courses 3. Four years of relevant work experience 4. Adhere to The Institute Code of Professional Conduct 5. Completion of Annual Continuing Education (CE)
CIP	Chartered Insurance Professional	Insurance Institute of Canada	The CIP designation is the benchmark of insurance professionalism in Canada (according to the Insurance Institute of Canada); there are three specialties: broker/agent, underwriter and loss adjuster.	1. Complete 5 mandatory courses. 2. Pass 5 additional courses. 3. All CIPs are required to abide by a Code of Ethics.
CHS™	Certified Health Insurance Specialist	The Institute for Advanced Financial Education (The Institute)	According to The Institute, the CHS is the only health-insurance focused designation in Canada.	1. One Elective Course from a selection of three courses 2. Two Additional Courses 3. Adhere to The Institute Code of Professional Conduct 4. Completion of Annual Continuing Education (CE)

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