

FINDING AN ADVISOR

JOHANNESBURG: Strange as it may seem, having money is stressful. When you don't have money your greatest concern is how to pay the bills at month end. Whilst this is a tough situation, most people manage to survive this stage of life relatively unscathed. As you get older and start accumulating assets, your fears multiply. You are now in a position where bad decisions could cost you real money, sometimes more than you earn in a year. Most people face this situation for the first time when they approach retirement – a time when they can least afford mistakes. The fear of losing money causes them to look for someone to help with their money decisions. This process usually presents new problems – how do you find someone who is trustworthy and knowledgeable? Choosing the wrong advisor could be far more costly than going it alone.

TAKE THE TIME TO FIND A GOOD ADVISOR

It is quite difficult to write a short article on how to find a good advisor because this type of relationship should last for a large portion of your life. Finding a good advisor is similar to finding a good business partner or life partner, you need the right combination of skills, trust and chemistry for the relationship to work. When you start the process of looking for an advisor, you should be prepared to spend some time looking for the right person. You could be working with that person for many, many years - you need to trust and respect each other.

DIFFERENT TYPES OF ADVISORS

Someone who works at a pharmacy selling cough syrup is not in the same league as a surgeon and allowing both people to call themselves, "Doctor" could be lethal. I would be terrified if I had to go for surgery and I had no idea how skilled my surgeon really was. Unfortunately, any person working in the financial services industry can call themselves a financial advisor after one month of training. I can only imagine how scary it must be for a financial novice who is looking for advice on investments or insurance. You simply cannot rely on titles like, "Financial Advisor" and "Wealth Manager" like you can rely on the title of "Doctor". This does not mean that all financial advisors are like the cough syrup salesmen, there are highly skilled advisors out there, you just have to know how to find them.

WHAT ARE THEIR QUALIFICATIONS

Your advisor should be a Certified Financial Planner (CFP®). This is a globally recognised qualification and is widely acknowledged as the minimum standard for professional advisors in South Africa. A CFP® has obtained a Post Graduate Diploma in Financial Planning and has a minimum of three years industry experience. This should be the absolute minimum requirement for anyone who is going to advise people about their long term investments. Unfortunately, the law does not require all Financial Advisors to be CFP's. This means your "financial advisor" could be a complete novice with one month of training.

WHO DO THEY WORK FOR

An advisor's place of work can also provide clues about the advisor's skill and experience.

Life Assurance Companies

These companies employ thousands of agents across the country, all of whom earn their living as commission earners. This means there is every incentive to have them selling to the public as fast as possible. As a result, only small percentage of these agents are CFP's. Typically agents who work for life assurance companies are contractually bound to sell a high proportion (if not 100%) of that Company's products.

Retail Banks

The big banks employ bank brokers who sit in the branch and assist clients who walk in asking for advice. These bank brokers also have a restricted range of products that they can sell but they have more choice than a life assurance agent. Not all bank brokers are highly qualified professionals. They also earn a living from commission which is not the most desirable method of remuneration for a long term investment. There are some great bank brokers but many are surviving in their position because they work for the bank, not because they are good advisors. You must ask lots of questions about the advisor before you take their advice, don't trust them simply because they work for the bank.

Private Banks

Private banks tend to employ wealth managers to advise their wealthier clients about their investments. As a rule, private banks are more selective when employing their staff so there is a good chance their employees are reasonably experienced and qualified. These wealth managers work for the bank and not for their clients. This means that you cannot keep your advisor if the bank promotes them or if they leave the bank. This is a common problem for private banking clients - their advisors change too often, which is disruptive and unsettling.

Independent advisors

Independent advisors are not affiliated with any product provider, bank or life assurance company. Most independent advisors work in smaller companies and often work for themselves. It is impossible to categorise all independent advisors into one group – some independents are highly skilled, ethical advisors whilst others will be commission chasing sharks. In order to differentiate between the good advisors and the dodgy ones, you will need to ask them about their qualifications, remuneration models and you will need to investigate their compliance procedures. If your advisor is registered with the FSB, has a CFP® and has an external compliance officer you can take some comfort that the advisor is probably on the right track. The major concern about small, independent advisory businesses is the lack of systems and infrastructure. Many of these businesses are not professionally managed which can lead to poor service and administration. It is also important to find out if your advisor has proper back up, is there another advisor to help you if something happens to your current advisor?

HOW DO THEY CHARGE

Initial (upfront) fees on investments are unfair to investors – there is little justification for someone to charge you an upfront percentage on your investment. Ongoing (annual) fees that adjust with the value of the investment are fair - the advisor earns more when your money grows. Initial fees are only justifiable when the advisor charges you a fixed rand-based fee for advice. That means the fee should not be determined by the size of the assets involved.

HOW WILL YOU KNOW WHEN YOU HAVE FOUND A GOOD ADVISOR?

Does your advisor have the CFP® qualification? Does he or she charge upfront fees on investments? Do you really understand how your money is being invested? Does your advisor provide all recommendations to you in writing? Do you get the feeling that your advisor understands you? Is there a good “match” between you and your advisor? Do you feel comfortable to discuss personal issues? Sometimes the person meets all the requirements but you just don’t gel – this is important because you will need to develop a long term relationship of trust and you need to feel comfortable with the person. If you are looking for a good advisor, go to www.fpi.co.za or www.findanadvisor.co.za to find CFP’s in your area. This is a good starting point; from there you will need to begin your homework in earnest.