

Managing the Relationship Between You and Your Advisor

One of the most important issues to consider when hiring an investment advisor is the relationship you hope to establish. A strong affiliation based on communication and trust is critical to the long-term success of your investment relationship. While it is your money that the advisor will invest, there are specific items for which each of you is responsible.

THE CLIENT'S RESPONSIBILITIES

The Facts To properly manage a relationship with your advisor, it is important that you give this individual the ingredients necessary to manage your account. The assets you are placing under management do not exist in a vacuum. You should provide a full disclosure of your financial assets and obligations and let your advisor know how they currently fit into your financial goals and objectives. *Will the advisor handle all of your assets, or a portion of them? What are the assets for: retirement, education, or general long-term growth? When will you need the assets?*

You and your advisor should also discuss your long- and short-term needs. *Do you have any income requirements*



now or in the near future? What is your tolerance for risk? What return do you hope to achieve? What fees will you incur over a given period of time?

Armed with the facts, an investment advisor should be able to provide you with a customized plan for managing your assets.

Expectations An upfront discussion with your advisor will prevent misunderstandings down the road. *How often would you like to meet with the advisor? What written reports and related materials would you like to see? How often would you like to see them?* Keep in mind that most advisors prepare pre-formatted reports which are sent en masse. If you would like to see additional or customized information, you should discuss this need with your advisor. Like any service, investment advisors balance a client's requests for service with account management time constraints. Flexibility will vary with individual firms. Deciding and voicing what is comfortable for you is a key piece of information for your advisor and will help determine if your needs can be met.

Other Issues While performance is important, it is not the only issue you should focus on when reviewing the relationship with your investment advisor. You should:

- Be honest and realistic with your goals and expectations;
- Understand and be comfortable with your investment advisor and his or her investment style; and
- Monitor your advisor's performance on a regular basis and discuss your portfolio's results with him or her. Look at the results relative to his or her peers as well as to the market environment in which they occurred. (See the CFA Institute fact sheet, "How to Evaluate Investment Portfolio Performance.")

Upon entrusting your advisor with your assets, and thoroughly discharging your responsibilities as a client, let your advisor go to work for you.

WHAT EVERY INVESTOR SHOULD KNOW

Managing the Relationship Between You and Your Advisor CONTINUED

THE ADVISOR'S RESPONSIBILITIES

Communication The advisor is responsible for giving you a clear explanation of his or her philosophy and processes. Your advisor should adhere to an agreed-upon plan and not deviate from it unless he or she has discussed changes with you. Communication should be open and honest. Just as you provided full disclosure to your advisor, your advisor needs to provide the same to you.

Educating The Client Advisors should provide an overview of financial markets and potential investment risks to help you make informed and intelligent asset allocation decisions. Without knowing all of the details surrounding your assets, your investment advisor may not be able to make the most appropriate recommendations. So you should expect your advisor to ask questions about your entire financial position.

The advisor should also clearly explain the reports and other materials generated, and how they relate to the management of your assets. The advisor should also discuss his or her general method of client communication. If your advisor is managing a taxable account, he or she should be aware of your tax situation and discuss the consequences of your investment strategy, taking these costs into consideration.

Investment advisors should be willing to educate you on a continual basis to keep you aware of your financial situation and of how current and expected trends in the financial markets may affect you.

The Partnership Overall, an investment advisor should be someone who acts as a sounding board for ideas. Your advisor will hold your hand in bad times, and will keep your expectations in check in good times.



When working with your advisor and establishing goals for your portfolio, he or she should help develop a written investment plan that provides the basis for your investment relationship. This plan should include, at a minimum, your agreed-upon goals and objectives, investment restrictions, asset allocation, performance comparisons, and a schedule for review. You should structure the plan for your specific needs while giving it the flexibility to be changed as time goes on.

Communication is crucial in a true partnership, and both positive and negative feedback should be welcomed.

Summary A strong relationship with your investment advisor is critical to the long-term success of your portfolio. While you are ultimately in charge, remembering the specific roles that both you and your advisor play should ensure a solid affiliation. ■



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