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How to Interview a Financial Advisor

Structured Interview Worksheet

When you are meeting with a prospective advisor, they will undoubtedly have questions for you, but your questions are going to be more important. Equally important is how you ask those questions.

People tend to ask different advisors different questions, which makes comparisons tricky. You must also contend with the human brain – specifically, our memories are worse than we realize and our decision making is often biased by unimportant factors.

The way to combat these issues is to hold a structured interview. The structured interview process was made popular by Nobel Prize-winning psychologist, Daniel Kahneman, to help reduce the impact of bias on our decision making.

The following is a list of the questions for a structured interview, along with some commentary to help you identify responses that are in your best interest. I've also included some follow-up questions you might want to ask. If you add one of these follow-up questions to your list, then make sure to give the other prospective advisors an opportunity to answer those questions as well.

If you have a significant other, you should both print the questions to individually and independently score the advisor's answers. You will want to rate each response on a scale of one to five immediately after you receive a response to your question. Don't look at each other's scores.

How to Conduct and Score a Structured Interview

A structured interview is beneficial in a few ways. First, scoring all of the questions on the same scale prevents one answer from coloring your judgment about other aspects of the advisor. Second, the structured interview process prevents your brain from forming false memories by keeping an



accurate measure of how you felt about an advisor's response. There will likely be some time lag between your different advisor interviews. Most people schedule advisor interviews over the course of a few weeks, but it could take longer if you have a busy schedule.

After you complete all your advisor interviews, add up the total scores for each score sheet. If you and your significant other scored the same advisor highest, go with that advisor. If there is a discrepancy, talk it out or find a way to reach a clear consensus. For example, you could ask your two favorite advisors to draft a sample financial plan for you to review and compare. They'll require you share personal information such as investment statements and tax returns, but this ought to help you identify the person who will best meet your needs.

This probably sounds like a lot of work, but it's a huge decision. As I expressed earlier, hiring a financial advisor can be the best decision you ever make—so long as you hire a good advisor. Following the process laid out here increases your chances of avoiding a bad advisor. Make sure to work through this process with your significant other, even if one person handles most of the household's finances. Alternatively, if you're single, you might consider bringing along a trusted friend or family member to provide a second set of scores.

1. How do you get paid?

Ideally an advisor is paid by the client and only by the client. If the firm is receiving revenue from any other sources, then there is opportunity for a conflict of interest.

2. Does your firm earn revenue from anyone other than me?

The answer you want to hear is "no." Fee-only firms that generate revenue paid directly only by clients have the fewest potential conflicts of interest.

Good follow-up questions:

- Do you earn fees for referring clients to specialists like estate attorneys or insurance agents?
- Do you participate in sales contests or award programs creating incentives to favor particular vendors?



3. What services do you provide? Would you consider charging a retainer or by the hour instead of a percentage fee based on my assets?

Advisors who won't consider a financial planning fee are probably more focused on investment advice. They likely consider financial planning advice as an afterthought, meaning it will be far from comprehensive.

4. How are you personally (not the firm) paid?

There isn't a perfect answer here, but it may uncover an individual's incentives. A salaried employee has fewer conflicts of interest than someone who gets paid a percentage of the revenue their clients generate.

5. Do you always act as a fiduciary, and will you state that in writing?

Obviously, you want a clear and simple "yes" to this question. If the advisor isn't willing to put it in writing, then they can't be held accountable.

6. Do you have experience working with clients like me?

You want to work with someone who has experience dealing with issues that are relevant to you. If their response leaves you uncertain, you might consider asking what are the most common services clients like you receive.

7. What experience, education, and credentials do you have?

You should want someone with at least the Certified Financial Planner (CFP®) designation, but it's nice to also see someone who is a Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA).

Good follow-up questions:

- Who else will I be working with, and what are their credentials?
- Is there a succession plan in place? If so, how far along into it are you?
When do you anticipate the succession to be completed?



8. What is your investment philosophy?

Ideally, you want someone who believes in setting a long-term asset allocation and broadly diversifying using low-cost options. For firms that have multiple advisors, it's also important that they all follow the same investment strategy. When advisors don't share the same investment philosophy, it signals that your advisor may not have the time or resources to do proper due diligence on investments.

Good follow-up questions:

- What was the last change made to your firm's portfolios? Why was the change made?
- How often do you trade?
- How is my portfolio managed?
- What's your favorite investment in your own portfolio?
- Who manages your money?
- Do you believe you can beat the market?

9. What is the all-in cost of working with you?

Costs will vary depending on the size of your investment account and the financial planning services you require. The bigger your account, the smaller percentage fee you should expect, but there's no reason to pay more than 1.0 percent of the assets under management. Ideally an advisor's fee would cover all of your financial planning needs.

10. What is your overall impression of the advisor?

This final question is for you to answer at the end of the interview before walking out of the room, and the intention is to capture your gut feeling about an advisor. Try not to overthink it. This time you will score on a scale of one to five, with five being the best score. The purpose of this question is to capture the intangibles the other questions lack. Did the person communicate with too much jargon? Can you envision your kids one day working with this person? Do you feel comfortable sharing every detail of your financial life with this person?



STRUCTURED INTERVIEW SCORECARD

Question	Ideal Answer	Potential Follow Ups	Score (1=lowest and 5=highest)
1. How do you get paid?	Ideally an advisor is paid by the client and only by the client. If the firm is receiving revenue from any other sources, then there is opportunity for a conflict of interest.		
2. Does your firm earn revenue from anyone other than me?	The answer you want to hear is "no." Fee-only firms that generate revenue paid directly only by clients have the fewest potential conflicts of interest.	*Do you earn fees for referring clients to specialists (estate attorney, CPA, insurance, etc)? * Do you participate in sales contests or award programs creating incentives to favor particular vendors?	
3. What services do you provide? Would you consider charging a retainer or by the hour instead of a percentage fee based on my assets?	Advisors who won't consider a financial planning fee are probably more focused on investment advice. They likely consider financial planning advice as an afterthought, meaning it will be far from comprehensive.		



STRUCTURED INTERVIEW SCORECARD

Question	Ideal Answer	Potential Follow Ups	Score (1=lowest and 5=highest)
4. How are you personally (not the firm) paid?	No perfect answer here. A salaried employee has fewer conflicts of interest than someone who gets paid commissions or a percentage of the revenue their clients generate.		
5. Do you always act as a fiduciary, and will you state that in writing?	Yes. If the advisor isn't willing to put it in writing, then they can't be held accountable.		
6. Do you have experience working with clients like me?	You want to work with someone who has experience dealing with issues that are relevant to you.	*What are the most common services clients like me receive?	
7. What experience, education, and credentials do you have?	You want someone at least the Certified Financial Planner (CFP®) designation, but it's nice to also see someone who is a Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA).	*Who else will I be working with, and what are their credentials? *Is there a succession plan in place? If so, how far along into it are you? When do you anticipate the succession to be completed?	



STRUCTURED INTERVIEW SCORECARD

Question	Ideal Answer	Potential Follow Ups	Score (1=lowest and 5=highest)
8. What is your investment philosophy?	Long-term asset allocation, broadly diversified, and uses low-cost fund options. It's also important that all advisors at the firm follow the same investment strategy. When advisors don't share the same investment philosophy, it signals that your advisor may not have the time or resources to do proper due diligence on investments.	*What was the last change made to your firm's portfolio? *How often do you trade? *How is my portfolio managed? *What's your favorite investment in your own portfolio? *Who manages your money? *Do you believe you can beat the market?	
9. What is the all-in cost of working with you?	There's no reason to pay more than 1.0% of the assets under management. Ideally an advisor's fee would cover all your financial planning needs.		
10. What is your overall impression of the advisor?	Answer at the end of the interview before walking out of the room, and the intention is to capture your gut feeling about an advisor. Try not to overthink it. This time you will score on a scale of one to five, with five being the best score. The purpose of this question is to capture the intangibles the other questions lack. Did the person communicate with too much jargon? Can you envision your kids one day working with this person? Do you feel comfortable sharing every detail of your financial life with this person?		

