

How to Check Financial Advisor References



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Introduction

A high percentage of financial advisors use references to increase their credibility and support their claims of superior results. You are supposed to believe that references accurately represent the advisors' services and results.

Most references are worthless.

- No advisor will give you a bad reference
- References may have personal relationships (friends, family, reciprocals) with the advisors
- A high percentage of references have been coached to make strong, positive comments about advisors

Read the following tips if you intend to check references and their input will influence your selection decisions. These tips will help you avoid mistakes that can have catastrophic financial consequences.



Types Of Advisors

The type of advisor who is most likely to use references is an advisor who relies on his sales skills to make money. That is because references are a sales tactic that is easy to manipulate. The more the advisor sells references the more likely the references are not reliable sources of objective information.

Tip: The lower the quality of the advisor, the more likely the advisor will use references to help him/her sell investment services and products.

Types Of References

The most frequently used references are current clients and other types of professionals (CPAs, attorneys). The references may also be friends, associates, and family members with different last names. You should always ask the references the following three questions:

1. What is your relationship to the advisor?
2. How long have you known the advisor?
3. How long has the advisor invested your assets?

Tip: Ask the advisor if he/she would refer you to a client who has terminated his/her services.



Similar Circumstances

Require the advisor to provide references that are similar to you: Age, careers, work status, families, assets, risk tolerance, financial goals, etc. Similarities make the referrals' comments more applicable to your situation.

Tip: If the advisor is supposed to be successful, but can't provide similar references, you should assume he/she has a small static list of references that he/she uses repeatedly. This is not a characteristic of a high quality advisor.

Longevity

You want to know how long the investors have been clients of the advisor. For credibility purposes the relationship should be five or more years old. Compare the references' responses to the information that is provided by the advisor.

Tip: Disregard the comments of references that have used the advisor's services for less than three years.

Assets

You want to know how much money the advisor invests for the references. It may be apples and oranges if you have a million dollars available for investment and the reference has \$50,000 invested with the advisor.



Tip: Advisors who control small amounts of money per investor are usually salespeople. Real advisors are responsible for larger sums of money.

Risk Tolerance

You want to know the risk tolerance of the advisor's references. For example, you are a retired engineer. Ideally, you would be able to talk to other retired investors. A 30-year-old reference who works for a tech company may not be a suitable reference.

Advice And Services



Salesmen are paid commissions to sell investment products. They do not receive compensation for providing ongoing advice and services. They also have no incentive to produce competitive performance because they were paid at the time of the sale.

Tip: Ask the reference if he/she meets with the advisor each quarter and whether he/she receives performance reports from the advisor. If the answer is "no", the advisor is a salesperson, and the reference is questionable.

Coaching

Has the advisor coached references to make strong, positive comments about him/her, his or her services, and his/her performance? For example, one advisor in Los Angeles coached his references to say: “He is the best kept secret on Wall Street”.

Tip: Listen to determine if multiple references use the same words to describe their relationship with advisors. If they use the same words or similar phrasing, there is a good chance they have been coached to make those

Professional References

A large number of financial advisor references may be other professionals (CPAs, attorneys). Many of these professionals act as references for each other. Or, they have personal relationships that include college fraternities and country clubs.

Tip: Professional references may sound important, but they are no better than any other type of reference. Ask them the same questions you would ask other references.

Performance

The performance claims of references are not a substitute for a legitimate track record. Real records are in compliance with GIPS (Global Investment Performance Standards) and are audited by independent third parties.



Tip: Ignore performance statements from references. You have no idea if the comments are true and how the performance is calculated.

Top Questions For References

Ask references and advisors the same questions and compare responses.

1. How long have you known the advisor?
2. How long have you used the advisors services?
3. What services does the advisor provide? Planning? Investing?
4. How much money does the advisor manage for you?
5. What net results (after expenses) has the advisor delivered?
6. How does the advisor perform in negative markets?
7. How do you compensate the advisor?
8. Have you ever thought about firing the advisor?
9. Do you have a personal relationship with the advisor?

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