5 things to look for in an advisor

Choosing the right financial advisor can make a substantial difference to you and your savings.

One takeaway from the pandemic is that people need financial advice. Advisors in North America opened an average of 7.4 new client relationships in 2020—which is the opposite of what happened during the financial crisis, where more people left their advisors than hired new ones. Yet, according to a recent poll, 65% of Canadians still don't have a financial advisor. If people are aware of the value of advice, then why aren't more turning to professionals for financial help?

Partly, it's because many people don't know what makes for a good advisor. There are more than 30,000 licensed financial advisors in Canada, all with varying offerings, fee structures, and more. It's often easier to do nothing than try to find someone to work with. Fortunately, selecting the right advisor is not as complicated as it may seem—you just need to know what to look for. Here are five key things you should consider when you're choosing an advisor.

Accreditation

Firstly, it's important to work with someone who is properly accredited to be an advisor. There are many stories of unlicensed "advisors" offering detrimental advice to unsuspecting individuals. The most popular designation is the certified financial planner (CFP), which is an internationally recognized accreditation that takes about two years to get. There's also the personal financial planner designation (PFP), which is offered by the Canadian Securities Institute, and the Registered Financial Planner designation (RFP) from the Institute of Advanced Financial Planners. (There are other more specialized designations, too, which you can see here.) Also do a search on the Canadian Securities Administrators website to check and see if your financial advisor is registered.

Communication

According to a recent survey, 71% of Canadians have not connected with their financial advisor within the last year. Ideally, most advisors will set up at least an annual check-in, where you'll take an in-depth look at your financial plan and where it stands, but you may want more frequent contact, too, whether it's through email, text, or a phone call. While frequency isn't always needed (it can depend on your life stage and what style of investor you are, e.g., long-term), it's important that you feel comfortable with your advisor. Finances can be intimidating or overwhelming, so you want to be certain that your advisor will be there in times of need. When interviewing advisors, ask them how often they communicate and what communication channels they use, and make sure they discuss any strategies in a clear, jargon-free, and respectful way.

Fees

Over the last few years, Canadians have become more aware of how fees impact portfolio returns. They also want to ensure they're getting value for their money. However, financial advisors have different fee structures, which can make it hard to understand how advisors charge. For instance, some advisors charge hourly or flat service fees for financial plans and ongoing investment management. Others take a percentage—often 1% or 2%—based on the total number of assets they manage. Some get paid by the fund company they put their clients' money with, or there are transaction-based advisors, who charge their clients when they buy or sell. All of these fee options have pros and cons, so talk to your advisor about how they charge, and why they have chosen that kind of payment structure to see what's best for you. While it may feel awkward asking direct questions about fees, it's important that your advisor is transparent and that you have a full understanding of what those fees mean for your portfolio.

Breadth of services

There was a time when a financial advisor's job was to invest your money. Now, more advisors take what's called a "holistic approach" to advice, which includes investing but also insurance, tax, estate, and business planning. Even if they can't do it all, they'll know lawyers, accountants, and business advisors who can step in where needed. Given that all of the different aspects of one's financial life are connected, it's important to ensure that your advisor can handle all the different moving parts. Find out more about their services and the teams they work with. Don't be afraid to ask about referral arrangements if your advisor passes you to a colleague for a specific service. Is the service genuinely required? Or are they trying to generate additional revenue for a service you may not need? A no fee referral arrangement is most likely to avoid any potential conflicts of interest.

Reputation

Like any service-based business, reputation matters. When looking for an advisor, ask family and friends if they have any recommendations or if they've heard of the person you're considering. You can also ask the advisor for references from their current client roster, and search one of several national databases to find out if they've ever faced disciplinary action. If you do talk to one of their clients, make sure to find out more about everything listed in the points above.

Choosing the right financial advisor doesn't have to be a monumental task—all it takes is a little legwork and knowing the right questions to ask—but picking the right one can make a substantial difference to you and your savings.

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