Do You Need Professional Help?

A financial advisor can be a big help to your business, but it pays to be choosy

By Dante DeNicola

The number of “Registered Investment Advisors” is now more than 6000 nationwide. Anyone responsible for a pension or a profit sharing plan, or who has a substantial personal portfolio, may want to consider hiring one of these professionals to manage his account.

Should you decide to consider an advisor, here are some guidelines for screening, and for what to expect once you’ve made a decision.

Minimum account size is one of the first pieces of information you should ascertain. The minimum account size many advisor firms will handle is $100,000, though for some the minimum could be as high as $25 million.

You also want to know the advisor’s track records. For example, many firms have 10-year track records with average annualized rates of return of 15 percent or more in their equity accounts. But consider the rest of the picture: What level of risk was assumed to achieve those results? Are the people who created that track record still at the firm?

Check on depth of management. If a key person leaves, how will it impact your portfolio?

Does the firm have experience in other areas such as fixed income or balanced accounts? If so, what are those track records? Find out how those results are achieved.

However, there’s more to a track record than just individual buy and sell transactions. Advisors should have a defineable investment philosophy, an effective investment process, and a consistent investment strategy.

Ask how much money the first has under management ($100 million is a reasonable amount). The amount is one indication of the company’s financial stability, business commitment, and ability to accept additional monies. Also ask about the qualifications of the management staff, since training and experience are vital considerations. If possible, conduct your advisor interview on-site, where you may glean some insight into the structure of the organization itself.

Ask about client communication. Does the firm encourage regularly scheduled client meetings? What access do you have to key decision makers? What kind of reports should you expect? At a minimum you should receive reports quarterly that express performance in absolute and percentage terms, and in relation to major indices. You should also receive full details of account activity. Check to see who at the firm will help you interpret the reports should you have difficulty understanding them.

Discuss fees. Most managers express fees as a percentage of the dollar amount of the account—and, the larger the account, the lower the percentage charged. Generally, fees range between 1/4 and 2 percent, but are by no means limited to this range.

After you’ve chosen an advisor, there are four steps you both must take together:

- Make sure your advisor has a full understanding of your needs.
- Define realistic investment objectives to meet your needs.
- Establish the right asset mix for each particular portfolio.
- Develop well-reasoned, sensible investment policies designed to achieve your realistic and specified long-term investment objectives.

Conduct a thorough screening process, then begin the relationship with open and honest communication and you’ll find the rewards well worth the effort.

About the Author...
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