Choosing the right adviser

If you are not as confident as you would like to be about making important financial decisions and if getting things wrong would have a big impact on your lifestyle, you may wish to consider engaging the services of a professional financial adviser. Despite the standards for UK advisers being among the best in the world now (although this was certainly not always the case), many people still find the task of finding and choosing one rather daunting. This is where a simple framework can help.

However, first of all it may be helpful to consider some of the varying ways in which financial advisers are described as even though all authorised and regulated individuals are subject to the same requirements, they do not all work in the same way.

- *Financial advisers* tend to be focused on the provision of advice on a particular issue or transaction at a point in time, such as buying a house, setting up a pension scheme or arranging life assurance. There may be subsequent ongoing service but not necessarily unless you request it.

- *Financial planners* generally follow a standard process which starts with a discussion of what you want to achieve in your life, what resources you have available (of whatever types) and how much risk you are willing and able to take in pursuit of those goals. They then carry out an analysis of how achievable those goals are and recommend the steps you might take to improve your chances. Since it is likely that your goals, circumstances and external factors will change over time, they then monitor and regularly review your plan with you to help you to stay on track so that you can make adjustments in plenty of time if they appear necessary. A financial planner can also work through possible alternative scenarios with you (for example, stopping paid work earlier, giving assets away or buying additional property) to help you to assess the likely impact on your future security.

- *Wealth managers* tend to focus on clients whose affairs are more complex than average and who require ongoing service, possibly across more than one generation, which often involves managing sustainable withdrawals from portfolio so may involve cashflow planning. However, there is considerable variety among those who call themselves wealth managers in terms of the service they provide. Some are little more than stockbrokers or investment managers, who will manage a portfolio but have limited knowledge of the legal and taxation aspects and often no training in financial planning so may not address pension or insurance issues. Ideally a wealth manager should provide both comprehensive financial planning (i.e. be focused on helping you to achieve your goals) and also provide ongoing investment portfolio management.

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Your definition of success

Ask yourself the question: 'If we were sitting down three years from now, looking back to today, what would need to have happened for us to be really satisfied with our progress over that time?' While thinking and planning for the long term is important, most people find it easier to look up to three years ahead ('the year after next year') as that time horizon tends to be more visible. A rolling series of such three-year timeframes eventually ends up becoming the long term. The clearer you can be about what 'good' looks and feels like from working with a financial adviser, the higher your chance of finding the right firm for your needs.

People like you

Many financial advice firms become really good at solving financial problems of specific groups of clients and therefore tailor their service and communication approach to that group's particular needs, for example heart surgeons in the north west region.

Some firms focus on dealing only with clients at certain life stages (such as those who need to live off their wealth), while others work with people who are still accumulating wealth. A firm set up to deal with wealthy people in their fifties is unlikely to be geared up to dealing with those developing their careers in their late twenties. The needs, skills, resources and communication styles of the two groups are completely different. Larger firms sometimes have several units or divisions, each of which focuses on one or two specific niches so that they can meet the needs of clients who have similar issues and for whom the solutions may also be similar.

Look for a firm that already works with people like you because this increases your chances of a successful outcome as they are more likely to understand your needs better. The firm's website is usually a good place to start as it should contain an indication of the types of client with which it works best.

Many firms will have existing clients whose circumstances are like your own and who are willing to speak to you about their own experiences; as this discussion should take place away from the firm, you can discuss openly any concerns that you might have with them without anyone's feelings being hurt. If you ask to speak to such clients and your request is denied, that may also tell you something useful.

Creating a shortlist

Before you interview any potential financial adviser it is worth employing a short and objective filter to create a shortlist of firms. Some possible criteria are suggested below but feel free to create your own:

Independent professional endorsement - Choose a firm that has an affiliation with a professional body, such as Accredited Financial Planning Firm (via the Chartered Institute of Securities & Investment) or Chartered Financial Planning Firm (via the Personal Finance Society). This shows that the firm has undergone an external assessment of both its process and professional standards and has highly qualified staff.

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Location – Choose a firm to which you can travel. Ideally visit them at their offices so that you can form an opinion of the people and the culture. Be wary of meeting advisers to discuss your financial circumstances in hotel lounges, as it is neither private nor professional.

Ongoing or one-off advice – If you need only one-off advice on a major issue, such as transferring some pension benefits or arranging care fees funding for an elderly relative, make sure that the firm is happy to provide that service on that basis. On the other hand, if you need a comprehensive and highly personalised ongoing advice and management service that starts with your life goals and then seeks to keep you on course to achieve them, make sure that the firm is able to provide this and has experience of doing so for people like you. Some firms are unable to do this either because their business model does not cater for it or due to the sheer number of clients for which each adviser is responsible. The absolute maximum number of active clients that a single adviser can work with is probably around 200 but many firms set much lower maxima than this in recognition that delivering higher levels of service requires greater amounts of resource.

Independent or restricted advice – Firms that provide independent advice have a duty to consider financial solutions from the entire market based on your needs, not what suits their commercial objectives. Ideally you should choose an independent adviser, particularly if your needs are complex. A restricted adviser is still obliged to provide advice that is suitable for your circumstances but can only select from a limited range of solutions and their ability to advise on what you already own may also be limited.

The people and approach

Personal financial advice is first and foremost a people business, which is built on trust and mutual respect. You need to feel comfortable with the individuals with whom you will be dealing on a day to day basis and how they work.

Some firms operate in small teams, with one person responsible for the overall relationship and advice but supported by planning assistants, portfolio managers, technicians, administrators and other specialists. Others are sole traders who deliver all aspects of the service themselves. You will have to reconcile the benefits of a more intimate personal relationship with the risk that if your adviser goes on holiday, goes to a conference, becomes seriously ill or dies, then there will be some inevitable disruption to that service.

The way that firms communicate and deliver their advice varies quite a lot, depending on the types of clients they serve, the people they employ, which areas of advice they are authorised by their regulator to provide and the extent to which they use technology. You should make sure that the way that they explain things, whether face to face, over the telephone or in writing, suits how you like to communicate. Not everyone likes to receive a report comprising 100 pages of text, plus appendices printed out from huge spreadsheets, so ask to see a sample of the type of work produced and decide whether it is in a format which works for you.

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Understand the charges

Costs are important in the financial sector, as every pound that you spend on third parties is a pound you do not have to spend on achieving your own goals and with low investment returns likely to be the norm for the next few years at least, it is essential to ensure that you receive sufficient value for the costs you pay. However, as with neurosurgery, choosing the lowest cost option may not be the most effective route in the long term. Since commissions were abolished for most products in 2012, at least you can identify the costs that you pay more easily now. Most advisers charge by fixed fee, hourly rates, a percentage of the value of the funds invested (possibly tiered, so that the rate reduces as the portfolio grows) or some combination of these. However, whatever charging method they use, they are obliged to provide a cash figure as an indication of what those costs might be for the proposed service.

Remember also that the charges paid to the adviser are only part of the total – those payable to fund managers, custodians, product providers and for transactions within your portfolio all add up and can have a material impact over time.

Determining value

Financial planning advice should help you to achieve better financial outcomes compared with not taking it. A good adviser should save you time and help you to:

- make well informed decisions and
- to stay disciplined in the face of the inevitable ups and downs of the stock market and of life in general.

A recent study[1] concluded that, "Based on our analysis, advisers can potentially add 'about 3 percent' in net returns……". It arrived at this figure by placing a value on the following services:

- Using low-cost funds: 0.45%
- Annual portfolio rebalancing: Up to 0.35%
- Behavioural coaching: 1 to 2%
- Tax efficiencies: Up to 0.75%
- Withdrawal order for spending: Up to 0.70%

It is noteworthy that none of these includes skill at selecting the 'best' markets, funds or shares in which to invest or in determining the best times to buy or sell them. Not only are these very hard to do but they do not add great value even if they can be done occasionally. Indeed, the highest value came from 'behavioural coaching' - helping clients to resist various common behaviours, such as trading too much or allowing their decisions to be driven by emotion, which have been shown by a number of studies to contribute to destroying their wealth (or rather to transferring it to other investors who were not displaying those behaviours at the time).

[1] '*Putting a value on your value: Quantifying Vanguard Advisor's Alpha', Francis M. Kinniry Jr., CFA, Colleen M. Jaconetti, CPA, CFP ®, Michael A. DiJoseph, CFA, and Yan Zilbering, March 2014*

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In conclusion

While there is certainly no guarantee that taking financial advice will add an extra 3% to your annual returns, if you choose a firm that is right for your needs, there is a very high chance that you will feel more confident about your finances, you should worry a lot less and you will probably have more freedom to be, do or have what you want from your life.

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