THE GLOBE AND MAIL

Can your adviser answer these four questions?

CHRIS TURNBULL Special to The Globe and Mail Monday, Nov. 17 2014

Of all the questions you've ever asked your financial adviser, there are four very important ones I'm willing to bet you never thought to ask.

It's in an adviser's interest to offer a wide range of products. Based on my experience, most established brokers hold more than 200 assorted mutual funds, stocks, corporate bonds, exchange traded funds, GICs and other securities.

What is the capacity of an adviser to research, recommend and track the changing circumstances of such a broad array of products? A GIC doesn't require much of an adviser's time, but a stock demands much more analysis. Company operations are often complex and must be viewed in context with sector trends, macroeconomic conditions and other criteria.

So how can you tell if your adviser knows his or her stuff? The following questions will reveal plenty.

How many securities do you follow?

Studies have shown that too much choice can lead to bad decision-making. You can avoid product overload by choosing investment firms that manage model portfolios. Such firms employ established processes for investing portfolios using similar securities for each client.

Have you read the prospectus for each security you sell?

Ellen Bessner points out in her article, Don't Shoot the Messenger *[http://www.investmentexecutive.com/-/don-t-shoot-the-messenger]*, that advisers testifying before Canadian securities regulators often answer 'no' when asked if they read the prospectus prior to recommending a security. In fact, advisers commonly rely on an abbreviated version of the prospectus called a green sheet; an informative collection of marketing sound bites about the product in question.

Most advisers stay current on previous recommendations by reading newspaper articles and analyst research reports. It begs the question, how much does an adviser, with no particular background or experience, really know about mining companies, new technologies, retailers or any of the other industries they recommend?

For your adviser to get you better returns – to outperform the market return and other advisers -- he or she must be better informed than the competition in order to recommend superior securities.

Are we trying to beat the market return with my portfolio?

This is a big one. After all, if you're not getting a higher return, why bother with the research, product recommendations and fees?

What is your advantage that will allow you to outperform?

If your adviser can recommend securities and achieve returns that beat the market benchmark, then great! Stick with him or her. If not, perhaps it's time to take your business elsewhere, or consider indexing, which is designed to deliver the market return, but not outperform it.

These aren't trick questions. Since you are literally putting your financial future in your adviser's hands, as an investor you are entitled to clear answers.

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