

Smart Money: Good advice pays for itself

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Brad Brain: "Some people think professional financial advice just means picking better mutual funds, but that isn't the extent of it. These results come from portfolio management and behavioural counselling in addition to managing wealth. Good advice pays for itself." | Getty Images



I am a big believer in financial advice. Admittedly, that probably comes off as being a self-interested statement as I make my living by giving financial advice. Nonetheless, several academic studies show that professional financial advice can add about 2% to 4% a year to a client's investment returns, on average.

Some people think professional financial advice just means picking better mutual funds, but that isn't the extent of it. These results come from portfolio management and behavioural counselling in addition to managing wealth. Good advice pays for itself.

Having said that, not every situation requires an advisor. If you want to throw a few dollars on a stock, and you know what you are doing, then you might not be looking for advice. You may just need someone to execute the trade for you, and that's what discount brokers are for.

But, despite all those TV commercials claiming how easy it is to manage your serious money, the reality is that financial literacy in Canada is not great. It is true that there will be a percentage of the population that has the skillset and the desire to manage their own money. Realistically though, that percentage of the population is probably in the single digits. Simply put, most people do not have expert knowledge in investment planning, income protection, taxation, estate planning and all the other financial complexities of life.

Let me put it this way. If you are unsure whether you need professional financial advice, then you probably do. The question is, what do you look for in a financial advisor? Here are some things to consider.

Look for someone that will spend time understanding what is important about money to you. Someone that will help you determine what it is that you are trying to accomplish, and how you can achieve it.

Look for someone that has ideas and is proactive in helping you implement them. Look for someone that is not limited in what they can do for you, whether that is because they are not fully licensed or because they only work with proprietary products.

Look for someone that has credentials. Believe it or not, almost anyone in Canada can call themselves a financial advisor, even those that have no business doing so. There is no shortage of industry designations. Some of them are substantial. Some of them, however, are not. A good starting spot is the Certified Financial Planner designation. If your advisor is not a CFP, be sure to ask about their qualifications.

Here are some additional questions to ask.

Regarding your advisor, ask am I a client of you, my advisor, or am I a client of the firm you work with? What is your business succession plan? What is your investment philosophy and your decision-making process?

Regarding your account, ask how do you charge for your services? Who will be servicing my account? What can I expect for client communication? If this doesn't work out, can I transfer my accounts without complications?

A successful financial advisory relationship requires mutual trust and respect. This is fundamental. If you don't trust and respect your financial advisor that is a pretty good signal that they are not the right person for you.

But trust and respect goes both ways. Your advisor should trust and respect you too, and that comes from you doing your part. Treat your advisory relationship like a partnership. Because it is.

It is true that good advice can pay for itself, but you will want to make sure that the advice that you are getting is good to begin with. Ask some questions, and find the right person for you to work with. For most people, that will be the important first step in achieving their financial goals.

Brad Brain. CFP, R.F.P., CIM, TEP is a Certified Financial Planner in Fort St John, BC. This material is prepared for general circulation and may not reflect your individual financial circumstances. Brad can be reached at www.bradbrainfinancial.com.

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