



# Effective Communication with Your Investment Advisor – It May Save You A Fortune



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Communication. Whether in a marriage, in a business deal or with your investment advisor, communication can be the difference between success and failure.

*(The term advisor is used in this article to include stockbrokers, financial advisors, financial planners, investment advisors, investment managers, wealth managers and others who offer financial advice and financial products.)*

As an expert witness testifying in investment lawsuits, I am all too often involved in cases between investors and their former advisors. Most of these cases arise from the investor losing substantial sums of money. Sometimes, it's just sour grapes on the investor's part. In extreme cases, the advisor may be criminally liable. However, the more typical case falls somewhere in between.

Often, the problem boils down to poor

communication and understanding between the investor and the advisor. When misunderstanding turns a \$100,000 investment into \$250,000 over a few years, there's never a complaint. However, when a \$100,000 investment falls to \$20,000, there will almost certainly be finger pointing.

Both you and your advisor have an inherent interest in developing a clear understanding

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of your needs and goals. From a practical standpoint, your advisor should be leading these conversations. That's because most investors don't have the background and experience to independently determine their own needs and goals. Your advisor should have and demonstrate the background, skills and resources to guide you through this process.

### Selecting an Advisor

While it's not necessary to put all of your assets with a single advisor, every advisor you work with should know about all of your assets and how they are being invested. Ideally, a single advisor would be responsible for creating and maintaining an overall strategy. Just as collections of car parts don't make a running car, collections of assets don't make a proper portfolio.

Here's the catch – advisors like to accumulate assets. Generally, the more of your assets they're handling, the more money they'll earn. Thus, disclosing that you have additional assets elsewhere may be subjecting yourself to additional sales pitches. While multiple advisors may add to the diversification of your portfolio, it can also be more difficult to achieve the goals of an overall plan. The other potential downside is that, while it can be difficult enough to find one advisor you trust, finding three, four or five can be a significant challenge.

Obviously, trust is very important. This is, after all, your financial future. Sadly, people are too often more careful in choosing a roofer to put a new roof on their house than they are in choosing an investment advisor. A leaky roof is nothing compared to losing all of your savings.

Be cautious in selecting an investment advisor. Start by meeting them in person. Interviewing several advisors will increase your opportunity to find one with whom you are comfortable and with whom you communicate well.

What are the potential downsides to poor communication with your advisor?

1. You could lose all or a part of your investment.
2. You could pay unnecessary fees and penalties.
3. You could be restricted from access to your money.
4. You could earn less on your investments than you desire.

**NEVER sign blank forms. You will want to completely read and understand every form you sign.**

– William W. McGinnis, CFA

### How to Communicate

You've worked hard to save money and invest for the future. You have expectations regarding the availability of that money, the amount that will be available and how much it will grow through investment. All of this needs to be clearly communicated to your advisor.

Your advisor should be a licensed professional. As such, they actually have many legal obligations to you, including clear, understandable communication and providing you the time and information to thoroughly understand your investments and all related documents. Many of the suggestions in this article are actually their responsibility, but it never hurts to covers things from your end as well.



Any time you are talking with your advisor, whether by phone or in person, it is a good idea to take notes. These notes should include a date, time and location of the conversation. Be sure to let your advisor know that you are taking notes so they will give you enough time to get everything down. It will also let them know that you are interested in all of the details.

If your advisor says something that you don't understand, ask them to explain further. If, at the end of the conversation, you still don't understand, your advisor shouldn't be encouraging you to buy. It's a good practice to never invest in anything that you can't explain to someone else. Likewise, if an investment sounds too good to be true, it probably is. Second opinions can be extremely valuable.

While it's easy to be bashful or modest when talking about money, you need to be open and honest with your advisor. Just like dealing with your doctor, they can't help you unless they have a clear understanding of your situation.

NEVER sign blank forms. You will want to completely read and understand every form you sign. If you are asked to sign forms while you are in your advisor's office, you may want to take them home to read before signing them. You can always mail them back. If you're not clear about the meaning of anything on the form, ask your advisor. It's a good policy to keep copies of every form you sign.

If your situation changes, inform your advisor. The loss of a job, a divorce, the loss

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of a spouse, an inheritance, a new child, a child going to college and other things that affect your investment profile are important to communicate to your advisor. This will allow them to keep your plan aligned with your needs.

### What You Should Communicate?

One of the first things you will do with a new advisor is complete a new account form. One of the questions is often – “How much investing experience do you have?” It’s easy to think that because you’ve owned a variety of stocks over the years that you have a “Very Good” knowledge of investments.

Do you really?

Do you understand short selling, puts, variable annuities, CMOs...? Probably not. It is always best to underestimate your knowledge level on any forms you are signing. This will make your advisor aware that it is important to educate you regarding the investments they are recommending. This way you can be sure you clearly understand not only the opportunity, but also the risks and costs, associated with the investment products they are recommending.

There are two primary areas that will be important to communicate to your advisor: 1) your investment profile and 2) your investment objectives. Often, parts of both of these are included in the new account form.

Your investment profile is made up of the following type of information:

- Your age
- Your dependents
- Your occupation
- Your income
- Your other sources of money
- Your near-term cash needs
- Your long-term cash needs
- Your tax situation
- Your assets
- How much you’ll be investing with this advisor
- Whether you have a financial plan
- Whether you have an accountant
- Whether you have a will
- Your knowledge of investing
- Your investment objectives
- Your risk tolerance

For most people, the most challenging of these questions will be the last two related to your objectives and risk tolerance. These are areas where an advisor can be particularly helpful. Many advisors will have tools to help you determine what’s appropriate for you.

Your investment objectives can be thought of as the overall goal. The new account

form may ask whether the objective for your account is:

- Income
- Growth & Income
- Growth
- Aggressive Growth

If you don’t know what these mean, definitely ask your advisor. If you’re not certain what your objective is, ask your advisor to guide you through the process of deciding. Take lots of notes so you will remember how and why you came to your decision.

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Risk tolerance relates to how much risk you are willing to take. It is a very important component in determining your objective. If you don’t have any stomach for potentially losing money, your objective definitely shouldn’t be Aggressive Growth, probably shouldn’t be Growth and possibly not even Growth & Income. Again, your advisor should be able to help you understand the details of risk tolerance and what yours is. Risk and return are always a trade-off in investing. It’s important to pick the right objective and to understand its implication for risk and return.

If you already have an advisor, go back and look at your new account agreement, your financial plan and all of your investments. If there’s anything you don’t clearly understand, contact your advisor and ask questions until everything is clear. Don’t be embarrassed, your financial future is too important to risk over a few or even a lot of questions.

Finally, whether you are working with a new advisor or one you have been with for a number of years, ask “What are your goals for my account?” Carefully listen to their response. Write it down. Be sure that it matches your own goals. If not, it’s time for further discussion.

Remember, communication is a never-ending process that could save you a fortune.



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