What Every Investor Should Know...

Managing the Relationship between You and Your Adviser

One of the most important issues to consider when hiring a financial adviser is the relationship you hope to establish. Are you hiring an adviser to manage a specific portion of your assets, or do you want a professional who will have full knowledge of your financial, and even personal, situation? Whichever level of advisory services you choose, the long-term success of your affiliation relies on open, two-way communication built on a foundation of trust.

Gathering the Facts You should expect your adviser to ask questions about your entire financial position. It is important that you give your adviser all the information necessary to manage your account, including full disclosure of your financial assets, income streams, and liabilities (significant one-time or recurring obligations). Doing so helps your adviser understand the elements that affect your financial goals. Questions to ask include:

Are you disclosing all of your assets — not only cash, stocks, and bonds but also other investments, such as equity positions in family businesses, real estate holdings, private partnership interests, and loans you may have made? Will the adviser handle all of your assets or only a portion of them? What assets have been designated for retirement, education, wealth transfer, or other specific needs? When will you need the assets? What are your income requirements now and in the near future? Do you have significant, unique, or recurring liabilities?

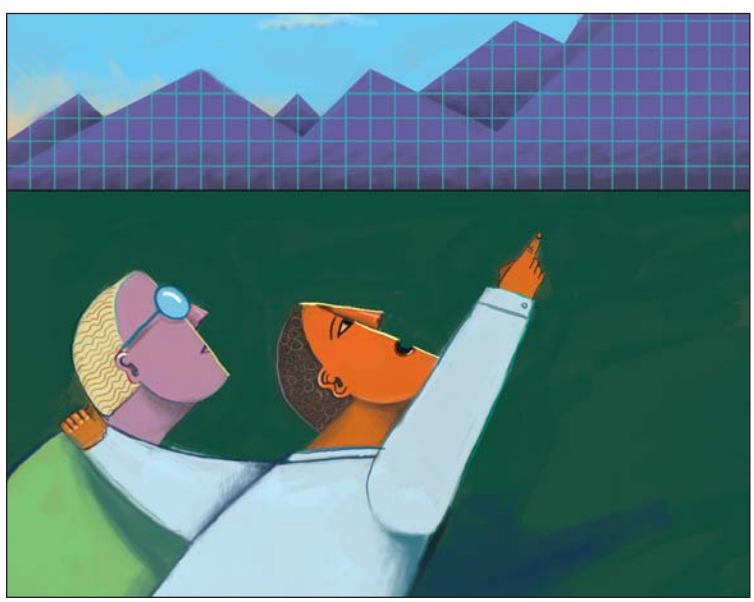
You and your adviser should also discuss these broad investment issues:

What does risk mean to you, and what is your risk tolerance level? What return do you hope to achieve? What are the consequences if you do not achieve your investment objectives? What are your investment constraints? What is your tax situation? Do you have any special tax circumstances that might apply? Should your investment portfolio reflect any social responsibility considerations?

A financial adviser will be able to make the most appropriate recommendations if he or she is aware of your complete investment portfolio. Armed with the facts, a financial adviser should then provide you with a customized plan called an "investment policy statement" for managing your assets.

Successful relationships are built on open, two-way communication and trust.

The Investment Policy Statement By working together, you and your adviser will be able to create a financial plan for your specific needs that can adjust to changes in your investment circumstances. An investment policy statement (IPS) is a written document that sets out your investment objectives, tolerance for risk, investment constraints, and special needs as well as guidelines you wish to establish for investing your assets. The IPS serves as a blueprint for investment management and provides the basis for your relationship with your financial adviser. The statement should include performance benchmarks, a schedule for portfolio review, and other policies relevant to managing the relationship.



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An up-front discussion with your adviser about the IPS will prevent misunderstandings later. You can also ask:

How often will we meet to go over my portfolio and financial circumstances? What written reports and related materials will be made available? How often will I receive these reports?

Like providers of any personal service, financial advisers balance a client's requests for service with account management time constraints. Keep in mind that most advisers employ pre-formatted performance reports. If you would like to see additional information, you should discuss this with your adviser. Flexibility will vary with each firm. Understanding your needs will help your adviser determine if he or she can meet your expectations.

Educating the Client A financial adviser should be willing to keep you up to date on trends and risks in the financial markets and how they may affect your investment portfolio. You should also expect your adviser to clearly explain his or her reports and other materials and how they relate to the management of your assets.

Lastly, if your adviser is managing a taxable account, he or she should be aware of your tax situation and discuss the consequences of your investment strategy. Your adviser should compare and contrast for you the tax efficiency of different types of investments and the tax consequences of holding a given type of investment in taxable and tax deferred accounts. It is important that you understand the rationale behind the allocation of your assets to investments and vehicles with different tax treatment for the purpose of achieving higher after-tax returns.

Communication You and your adviser share the same goal — achieving your investment objectives. Two-way communication is crucial in such a partnership. Just as you provided full disclosure to your adviser, your adviser needs to provide the same to you. In addition to giving you a clear explanation of his or her investment approach, an adviser should:

- Adhere to the agreed-upon investment plan and not deviate from it unless the changes have been discussed with you;
- Disclose fees that will be incurred over a given period of time; and
- Discuss how frequently he or she will communicate with you.

Communication should be open and straightforward; honest feedback, including negative feedback where appropriate, is important to making the relationship work.

Assessing Your Relationship The bottom-line performance of your portfolio is only one aspect to consider when assessing the relationship with your financial adviser. Others are:

- Understanding and feeling comfortable with your financial adviser and his or her investment approach, that is, the investment philosophy and decision-making processes; and
- Looking at the performance of your portfolio against an appropriate, pre-designated benchmark upon which you both agree.

Monitoring your adviser's performance and discussing your portfolio's results with the adviser should be an on-going process.

The Partnership A financial adviser should be someone who acts as a sounding board for ideas and provides solid counsel to help you meet your investment objectives. While you are ultimately in charge, it is important to remember the specific roles that you and your adviser play to ensure a long-lasting partnership.

Advisers particularly well qualified to help you with these processes will hold the Chartered Financial Analyst® (CFA®) designation, awarded by CFA Institute.

Contact CFA Institute for more information on its programs and services:

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