



A Note from Brad

The Value of Advice

In a recent article cleverly titled "Go It Alone and Have a Fool for a Client," Jonathan Chevreau of the *National Post* impresses upon readers the value of obtaining professional financial advice. His piece describes Canada's need to raise a more financially literate population and posits that financial advisors offer a valuable service in educating clients and encouraging disciplined investment behaviour, especially during turbulent markets.

Although Chevreau advocates working with a financial advisor, he fails to make any distinction between good and bad advice in his defence of the advisory business. So, regardless of whether investors consult an advisor or go it alone, they still don't know what to look for—or what to look out for—and all advisors get painted with the same brush.

I feel very strongly that, for most investors, **good advice is better than no advice, and no advice is better than bad advice!**

Unfortunately, the investing public isn't given much direction in recognizing prudent advice or knowing how to identify professionals who are most likely to offer it. There are some rather generic guidelines such as the "10 Questions to Ask When Choosing a Financial Planner" outlined on the CFP® website (Chevreau directed readers to this source). Unfortunately, these standard queries suggest that attributes such as experience, qualifications, and regulatory oversight are indicators of the value of advice. If only it were that simple!

So, in the absence of any alternative guidelines for assisting investors in their quest for good advice, these are *my* **"10 Questions to ask your Advisor:"**

1) Was your investment education obtained on Bay Street, or are you familiar with the knowledge base of seven decades of evidence-based finance?

2) In a free market where competition drives prices toward equilibrium, do you believe you have information or skill that gives you a competitive advantage over all other investors combined?

3) Do you attempt to forecast anything? Do you claim to be able to pick stocks, identify winning money managers (in advance), or time markets? What evidence do you have to support these claims?

- 4) Do you make promises that you cannot keep?
- 5) Do you focus on returns, or the risk/return trade-off?
- 6) Do you give advice and inform clients about appropriate investment solutions or do you sell and facilitate transactions of products the client wants?
- 7) Do you maintain a disciplined investment experience and keep clients invested in a portfolio they need, or will you chase performance in pursuit of investment products the client wants?
- 8) Will you let clients pay for your advice if they do not take it? In other words, if a client does not accept your recommendations, will you keep him as a client, and more specifically, accept compensation from product providers that *the client* wants to use?
- 9) What is the total cost to the client? Who earns what and how is it charged? Do you have any incentive to give anything but your best advice?
- 10) Are you skilled at dealing with the things you can control (e.g., structure, diversification, costs, taxes, etc.), or do you focus on what amounts to noise (e.g., short-term performance, the financial press, hot sectors, flavors of the month, etc.)?

Honest answers to these questions would serve investors well in their attempt to find a good advisor who gives good advice. Unfortunately, the ugly truth is that most investors and many advisors don't understand these questions, let alone the answers. Instead of debating between advice and no advice, the investing public should be informed about what these questions mean and why they are so important.

After all, when investors **understand the information** and **receive full disclosure**, *the choice is clear and the debate is over.*

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