



## *THE INVESTOR'S RIGHT TO KNOW:* **SELECTING AN INVESTMENT ADVISER**

Selecting an investment adviser is one of the most important financial decisions you can make. The Association for Investment Management and Research (AIMR) encourages you, the investor, to follow the five P's in selecting an adviser for your personal investment goals.

**P**REPARATION. As with most important decisions in life, preparation is key to your success in choosing an investment adviser. Research investor publications for information on choosing the right investment goals for your lifestyle. Before interviewing advisers, develop specific questions related to those goals.

Know your own personal style. Are you looking for a partner in managing your investments, or are you willing to provide the adviser with control? Do you have any social or political beliefs that will need to be considered in establishing your goals and selecting an adviser?

Ask for referrals from friends who have been successful in achieving their investment goals. But remember, you are selecting an adviser not only on how well he/she selects stocks, but also on how well he/she administers accounts.

Research the background of your investment adviser before you make your final selection. Ask for complaint history as well as success stories. Other questions to consider include employment history, educational background and professional affiliations. Determine the significance of professional designations an adviser may hold.

**P**ROFESSIONALISM. Your investment adviser will have access to the most personal details of your finances, so trust is important. Most advisers will have an introductory meeting with you at no cost. Such meetings provide you with the opportunity to decide how comfortable you will be with an adviser, both personally and professionally.

Many investment firms have ethical standards that are more stringent than some regulatory requirements. Ask whether such standards exist in an investment adviser's organization. Determine how such standards are administered.

Determine whether your account will be a priority to an adviser. Is the amount of money you intend to place under his/her management comparable to other clients? What is the income base of other clients? Is it comparable to yours? Will your adviser be accessible for questions or meetings, or will such functions be assigned to another staffperson? If so, ask to interview anyone that can influence the decisions made on your account.

Will you be comfortable with an adviser's personal style? Is he/she a salesperson or an adviser? Which type is best for your personal investment goals? The use of buzzwords may be a sign of good marketer, but not necessarily of a good investment manager. Don't be intimidated. Ask for an explanation of terms you don't understand.

Will you be informed if the adviser has any financial interest in the investment products he/she recommends? Will you be informed if the adviser becomes the subject of an ethical or regulatory investigation after he/she is hired?





**PHILOSOPHY.** Asking questions about an adviser's investment philosophy is one of the most important steps in choosing an adviser that can help you achieve your personal investment goals. Is the adviser conservative or aggressive with regard to his/her investment philosophy? Ask to review records to verify his/her answer. If an adviser works for an investment firm, request information on the firm's philosophy as well.

Investors often consider social or political issues in the selection of investment products. Will the adviser, and if applicable, his/her firm, be able to respond to your views?

The size of an investment organization is not necessarily an indication of an adviser's ability to help you achieve your personal investment goals. Determine the adviser's seniority in the firm. Understand how corporate or management changes can influence his/her investment philosophy.

What is the adviser's (or the firm's) views with regard to communicating to clients? Ask to see copies of account reporting formats and procedures. How often will you receive reports on your account? Will you be able to understand reports? Does the adviser—or the adviser's firm—support the SEC's recent initiatives concerning plain English?



**PERFORMANCE.** Analyzing performance results is another important aspect of selecting an investment adviser. As a first step, discuss whether the adviser complies with AIMR's Performance Presentation Standards. The Standards, which are based on AIMR's ethics codes, were created in 1987 to level the playing field for investors and the investment profession. Highlights of the Standards are available by calling AIMR at (804) 980-3668.

Analyze an adviser's performance record over time. Be aware that there are many considerations in determining overall performance, including the investment instruments utilized and account and market activity. Compare adviser performance with leading benchmarks, such as Standards & Poor's 500.

How is the adviser paid for his/her performance? Determine whether an adviser's performance data includes the impact of fees charged to clients, and whether he/she receives compensation from anyone other than clients.



**PROFESSIONAL DESIGNATIONS.** Financial professionals may hold one or more designations that represent their competence in specific areas of their profession. For example, some analysts hold the prestigious Chartered Financial Analyst designation. Ask for information on how such designations are administered, including any educational, ethical or work experience requirements that must be met in order to be awarded and hold the designation. Compare the areas of competence represented by the designation to the skills you are searching for in an investment adviser.

**ABOUT AIMR.** AIMR is the leading global nonprofit professional association in the investment industry, with over 30,000 members in more than 80 affiliated societies and chapters around the world. AIMR administers the Chartered Financial Analyst designation, a hallmark of excellence in the investment industry, and provides global leadership in investment education, professional standards and advocacy.



AIMR is a founding member of the Alliance for Investor Education

