

Five questions to ask your financial adviser

There are several important questions you should always ask when seeking investment advice.

1. How do I know what you're recommending is the best option for me?

Your adviser should put their recommendations in writing, setting out what they're recommending and why.

- Has your adviser asked you questions about your circumstances and needs? For example, your financial goals and tolerance for the ups and downs of investment markets?
- Has the adviser helped you prioritise your financial objectives, explained and discussed choices with you, and developed a strategy to help you achieve your objectives? Do you have a clearly defined scope of service so you know what advice is being provided and what is not?

2. What are the risks of this investment?

All investments carry risk. Your adviser can't protect you from investment risk, but it's his/her job to ensure you understand what you are getting into.

- Has your adviser provided clear and simple explanations about how the investment(s) you're considering will work and what could go wrong?
- Do you understand how you can make, or lose, money from this investment?
- If your adviser is advising you to change from another product, he/she must tell you the costs as well as the benefits, and risks of the switch. If the adviser can't provide a specific comparison (for example, if they're unable to comment on other provider's products), ask for an explanation of the risks of changing products and investigate this further, or get a different opinion.

3. What will I pay?

Some advisers charge a fee, others charge a commission or may receive sales related incentives. Details of any fees or commission that apply must be provided to you in writing in a formal disclosure statement before you pay the adviser any money.

- Check to see if they charge ongoing service fees. If so, find out what that service means. Will you get regular reviews of your circumstances and investment portfolio? Will re-balancing of your investment portfolio be necessary?
- Some products have entry and exit fees and may charge ongoing management fees and expenses. This information should be explained in the product disclosure statement so be sure to read it.
- Are the fees reasonable for the services you will receive? What impact will the product fees have on your returns? Remember even small differences in fees can translate into large differences in returns over time.

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4. What information will I receive about my investments?

Find out how often you'll receive reports or transaction statements showing the value of your investments and the fees and taxes paid. It's important to have this information so you can watch out for warning signs that something may be going wrong.

- If your adviser is providing you with ongoing service, ask how often they'll contact you. Remember things change, so it's important to review your plans at least once a year.
- Your adviser should provide information about appropriate benchmarks to help you compare your investment's performance against other similar investments in the market. Advisers must also provide you specific product disclosure information for each investment product you are using.
- Do you understand how to interpret the financial reports you'll receive? Do you want ongoing service and calls when changes need to be made and what they will cost?

5. How can I get my money back?

If you've agreed to a fixed-term investment you may need to pay a penalty and/or fee to get your money back. Or you may make a profit or loss, depending on the price of the product at the time you want to sell it. There may also be restrictions, for example, units in some managed funds can only be sold at the end of a month, or there might be a limited market for some types of products.

- Investments in KiwiSaver and other superannuation funds are often locked in until you retire. If this is the case, you usually can't get your money out early.
- Have you got enough money readily accessible if you need it?
- Some advisers may recommend you put 'emergency' money in a cash fund, but remember entry and exit fees may apply.

More information

To find out more about choosing and working with an adviser: fma.govt.nz/consumers

For information about managing personal finances, including: budgeting, saving, retirement planning, and investing: sorted.org.nz