

Be an empowered investor: Select a suitable investment advisor

Are you an investor? The answer is yes unless you keep your savings under a mattress or buried in the back yard. Even if you don't think of yourself as an investor, the decision to put money aside and grow it for the future means you're making an investment. And it's easier than you may think to make the most of your investments.

You need a combination of the right information and the right attitude. If you have savings, you can be sure that someone—an investment advisor, friends or family, possibly even a fraudster—will want you to listen to their ideas for how you can invest those savings in the stock market. Hence, it is of utmost importance to select a combination of the right information and right attitude when selecting an investment advisor.

Attitude. Be sceptical! Take a questioning attitude about every investment opportunity you come across. Then ask questions until you fully understand it. Not just of the person or institution making the offer, although that's important. Do your own research. Use the resources mentioned in this guide. Get a second opinion. As an empowered investor, you're in charge.

Information. You don't need special software, a system or somebody you think is smarter than you to make informed investments. You do need to know that the person you are dealing with is properly licensed by the regulator, what each investment will cost you and—over time—how your portfolio of investments is performing.

Working with an investment advisor

Is your advisor a registered investment advisor licensed by the Securities and Exchange Commission of Sri Lanka (SEC)? If you think it doesn't matter because they work for a stockbroker firm, you've known them forever or you just can't imagine not trusting them, you might want to tap into your inner sceptic and think again.

Any person who has completed the Certificate in Capital Markets (CCM) qualification could become a registered investment advisor after completing the relevant industry experience. In order to maintain the RIA status, the investment advisors are required to attend minimum of two Continuous Professional Development Programmes (CPDs) for a year.

Working with a licensed investment advisor is the only way to ensure that the laws governing advisor conduct can protect you. If you make the mistake of allowing an unregistered person to sell or advise you about an investment, you forego the protection of those laws. You also run the risk of involving yourself with someone whose intent is not to help you achieve your investment goals but only to make a sale, suitable or not.

Further on, knowing the services your advisor is legitimately permitted to offer

EMPOWERED INVESTOR CHECKLIST

ALWAYS

Be skeptical!

Check to see if your investment advisor is registered and licensed by the SEC.

Check to see if the advisor has ever been disciplined for bad practices.

Ask what transaction fees you will pay for each transaction and what other compensation your advisor will receive for investments you own.

Think of reasons not to buy before you agree to proceed.

Ask questions, and keep on asking questions, until you fully understand each investment.

Do some of your own research. It's easier than you think.

Read the information you receive from your advisor.

Ensure that the transactions your statements are ones you have approved.

Know the warning signs of investment fraud and report investment fraud.

Know that higher returns = higher risk. There are no exceptions.

NEVER

Sign a blank form.

Write a cheque to your advisor or advisor's personal corporation.

Expect your advisor to make investment decisions for you, act on vague buy-sell instructions or recommend investments that are always profitable.

Expect that your investment advisor can get you better returns than what the market is delivering.

Feel obligated or pressured to take on investment risk that makes you feel uncomfortable.

and what limitations they work under, is important. It can help you identify someone who's a great talker but doesn't have the training or education to provide appropriate advice. Moreover, it can keep you from relying too heavily on someone with a more limited product offering than you need.

■ Never write a cheque to your advisor. Always make cheques payable to the stockbroker firm. Never sign a blank form.

■ Don't expect (and never believe claims) that your investment advisor can better the market by getting you higher or more consistent, returns than what similar investments are delivering. If the market overall is falling, the chance of your portfolio rising is remote.

■ Always conduct a background check.

Knowing an advisor's credentials and background is a best practice of empowered investing. Even if you're satisfied with your advisor, we urge you to do it. Knowing what information exists for your benefit will be useful if you ever decide to change advisors. Meanwhile, it's a conversation you can take up with your current advisor.

Access the SEC website and refer the database on registered investment advisors

licensed by the SEC in Sri Lanka. Here you can search for advisors by individual name and the name of the stockbroker firm the individual works.

Once you have a shortlist of at least three registered investment advisors with no disciplinary history, be sure to meet them. Expect to have a two-way conversation. Even in a first interview, an advisor may ask you about your net worth, income and expenses and investment goals. This isn't prying. The advisor you choose will need to know your financial situation to fulfil their 'know your client' obligations. Just remember to go through the whole process and don't make a hasty decision based on how good you feel about them.

Advisor-client relationship

The advisor you choose will work for you. Always remember that they derive their income from you and their other clients. The advisor-client relationship is a partnership of sorts but you're the senior partner. And you both have responsibilities.

Advisor. Your advisor has very specific obligations to you as a client. They include understanding your financial situation and risk profile, understanding the products they offer,



recommending suitable investments and spelling out conflicts of interest that could interfere with their ability to give you the service you need. Overall, they must deal with you fairly, honestly and in good faith. Know that a good advisor won't dodge your questions. It's their job to explain things in a way that makes sense to you. If they don't, look for another advisor.

Client. Your responsibility is to play an active role in understanding your investments. Be prepared to:

■ Communicate clearly about your financial situation, investment goals and risk tolerance and inform your advisor of any changes to this information.

■ Ask questions until you fully understand each investment, including the fees you will pay.

■ Pay attention to the information you receive from your advisor—account-opening documents, research materials, transaction records and statements. Make sure the only transactions and fees on your statements are ones that you approved.

■ If you're not sure about any investment, ask for a second opinion from another qualified professional, such as a tax accountant, lawyer, etc.

Expect your advisor to:

■ Make clear and specific recommendations.

■ Explain how each transaction fits into your portfolio.

■ Outline the risks involved.

■ Disclose the transaction fee you will pay.

Your advisor will not be able to:

■ Recommend investments that are always profitable

■ Act on vague or general buy-sell instructions

■ Get better returns than comparable investments

■ Predict market performance

Making investment decisions

A suitable investment is appropriate to your risk tolerance and investment goals in view of your life circumstances, investment experience and overall portfolio. Every advisor is expected to recommend only suitable investments. Despite this legal obligation, it's still possible for you to end up with unsuitable investments in your portfolio. That's why it's so important for you to involve yourself in decisions about what your advisor buys and sells on your behalf.

Ask questions. Every time you speak with your advisor about buying or selling an investment, you'll want to ask at least these five questions:

■ What exactly is it?

■ What are the risks and potential returns?

■ Is it suitable, given my risk profile and portfolio?

■ What will you and your firm earn, now and later?

Know your risk tolerance. Your risk tolerance is a measure not only of your willingness to accept risk but also your ability to lose money. Both you and your advisor need to consider both when assessing how suitable an investment is for you. There's no right answer to the question of how much risk you should take, although the rule of thumb is that the older you are and the smaller your savings, the less risk you can handle. Never feel obligated or pressured to take on investment risk that makes you feel uncomfortable.

Do your homework. Always ask your advisor for their firm's research report on a proposed investment. You can also do your own research. All public companies are required to publish financial statements and other information to help shareholders make more informed investment decisions.

Working with an advisor who is smart and gives good advice adds tremendous value to your journey of stock investing. Select your investment advisor wisely and be an empowered investor.

(Source: www.investright.com)