

My Financial Adviser Is Losing Me Money!

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by Walter Updegrave
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Don't lose faith in your planner just because he keeps you invested in a down market. Ask yourself these questions first.

Question: I saw many signs in 2007 that indicated that this would be a tough year in the market. But when I mentioned my concerns to my adviser, he resisted my suggestion to move into more conservative investments. His recommendation has cost me a lot of money, so I'm wondering: Should I stick with an adviser who only seems to have a pat answer of buy and hold? Shouldn't he be managing my investments and giving me advice based on market conditions? *—Rod G., Lexington, Ohio*

Answer: First, let me say that it's not at all clear to me that your adviser has done anything wrong. Frankly, I'm more suspicious when advisers are eager to dump existing investments and buy into new ones. After all, making more buy and sell recommendations is usually in the adviser's financial interest, since more moves can generate more commissions, or at least make it appear that the adviser is on top of the situation.

So the fact that your adviser didn't play yes-man to your urge to move into more conservative investments doesn't automatically suggest to me that he's incompetent or lazy. Quite the opposite. As long as you were going into 2008 with a reasonably diversified portfolio that made sense given your particular situation, then it seems reasonable to me that he would want to caution you against making any big moves.

That's not to say that an adviser shouldn't be ready to re-evaluate a strategy in light of market conditions, and perhaps even make changes. But I think a big part of an adviser's job is also preventing clients from acting on whim or emotion.

Oh, but I forgot. You saw "many signs" that 2008 was going to be a bad year. *Please.* The world is full of people who, with the benefit of 20/20 hindsight, knew that the market was headed for a crash in 1987 or that dot-com stocks would melt down in 2000 or that the real estate bubble would burst in 2007. Of course, we rarely hear about the other calls these prescient investors made that turned out to be false alarms.

You say you want "advice based on market conditions." But it seems to me you really want your adviser to predict the future. That's unrealistic. No one can do that consistently. And if your adviser did offer a warning of an impending downturn, moved you into more conservative investments and that prediction turned out to be wrong, I suspect that you would be howling about the money you lost from being out of the market.

All of which is to say that I think you need to re-think what to expect from an adviser and how to evaluate your adviser's performance. Here are three questions you can ask yourself to help you do that:

Have you and the adviser talked about *why* you're investing?

I got a kick out of a cartoon that ran in *The Wall Street Journal* last week showing a broker asking his client, "Are you investing for growth, wealth preservation, income or excitement?"

Funny, yes, but it raises an important point. You can't invest in a vacuum, at least not sensibly. To choose appropriate investments and assemble a reasonable portfolio, you've got to have a goal or objective in mind. (And, no, big gains with low risk is not a *bona fide* goal.) If your retirement is 20 years away, you'll take a much different approach than you would if you're going to be calling it a career in a couple of years.

Your adviser should be talking to you about your goals as well as how much risk you're willing to take in order to reach them and how you might react to market setbacks along the way. If you haven't had this sort of discussion with your adviser - and if you don't touch base periodically to re-assess your situation - then I don't see how an adviser can make sensible recommendations.

Has your adviser set a coherent strategy?

Once your adviser has a good sense of your goals and risk tolerance, he or she can set a reasonable strategy. The foundation for that strategy should be a diversified asset mix that includes a variety of different stocks (large, small, growth, value, domestic and foreign) or stock funds and bonds or bond funds.

The idea is that the mix of assets should be designed to give you a good shot at the returns you'll need to reach your goals with a level of volatility that's acceptable to you. While the adviser can't guarantee performance, he or she should be able to give you a reasonable forecast of how that portfolio might perform over the long run and at the very least tell you how that mix has done in good and bad markets in the past.

I'd also want the adviser to go beyond pure investment advice and help you look into such issues as whether you're saving enough, whether you're taking full advantage of tax-deferred accounts like 401(k)s and IRAs and, if you're retired or nearing retirement, the odds that your nest egg will be able to support you throughout your golden years.

Does your adviser provide regular updates on how you're doing?

No strategy is going to go exactly according to plan. So your adviser should be providing periodic reports - quarterly seems reasonable to me - that show you how you're doing versus an appropriate benchmark. If your portfolio's performance is out of line - either above or below its benchmark - then your adviser should explain why this is the case and you should both discuss whether any changes or tweaks are needed.

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A good adviser should also know, however, that market turmoil will naturally upset many investors and lead them to wonder whether they're still on the right course. So aside from scheduled updates, an adviser should make a special effort to keep in touch during especially chaotic periods.

It's not enough at times like this for an adviser to say "hang in there and all will be well." An adviser should be ready to go over the strategy again, make sure it's still appropriate for your situation and, most important, explain to you why the strategy still applies even if it's losing money at the moment.

If something about your situation has changed or if it turns out you drastically overestimated the level of volatility you can stomach, then it could make sense to fine tune and perhaps re-jigger your portfolio. Remember, though, if you're constantly making changes, then you probably don't have a real strategy anyway. You're winging it.

If, after asking yourself these questions, you decide your adviser comes up short, then fine, go look for a new one. But if you're going to jettison him because he can't predict the future, good luck in your search for a replacement, because I don't think you'll find anyone who'll measure up.

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