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HAVING DIFFICULT DISCUSSIONS WITH YOUR FINANCIAL ADVISER

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Your relationship with your financial adviser can sometimes be complicated. This is someone you rely on for advice on matters you don't share with many other people and whom you've come to trust, but no relationship is free of stress.

The following are some situations in which you may find yourself along with some points to consider as you contemplate next steps.

- **You are unhappy with your portfolio's performance.**
  Consider how your portfolio is performing compared with an appropriate benchmark. Many people focus on the performance of the Dow Jones Industrial Average (DJIA), for example, but the DJIA is not necessarily a good benchmark for a portfolio that includes bonds (fixed income) or investments in the broader stock market. "Ask your adviser what attributes drive the performance of your portfolio versus the benchmark so you understand what's causing the variance," says Rick Clemens, CFA, president of Hawk100, an independent registered investment adviser. "Your adviser should welcome this discussion because it may uncover some bigger issues. We learn a lot about clients' risk preferences by exploring how they respond to adversity."

  Perhaps it's time to revisit your investment goals. It's possible that your objectives have changed since you first outlined your plan, and if so, you should consider a change in your investment strategy. If you've become more risk averse, discuss with your adviser whether it makes sense to change your portfolio or to stick with your original plan. Try not to let short-term market disruptions distract you from your long-term objectives.

- **You are unhappy with the level of service you are receiving.**
  Perhaps your adviser is not responding to calls or e-mails as quickly as you might like, or has other professionals from the office contact you. Review your investment policy statement: What did you and your adviser agree to in terms of frequency of contact? Maybe your expectations have changed. Make this clear to your adviser, and if necessary, update your investment policy statement. Communicate your concerns without being confrontational or overly emotional. Ultimately, this is a business relationship and should be treated that way.

  Make sure you're receiving account statements from both your adviser and the custodian holding your assets. Review them, make sure they are consistent with each other, and independently verify the information. Although it's rare, fraud does occur. Ensure that you're taking adequate measures to protect yourself. You should also monitor changes in your accounts to make sure you understand the actions your adviser is taking.

- **You think you and your adviser have too many "philosophical" differences.**
  Maybe your adviser counseled against investing in something that subsequently went up, or you think you're lagging behind the "unbelievable" returns your friends say they're getting. Make sure you understand why your adviser objected to your suggestion. Think about whether that investment idea fits with the investment objectives you developed with your adviser. Would it have created a concentration risk in your portfolio? Was there a concern about liquidity? Is trading, as opposed to investing, really what you want to do?

  Consider whether you are more tolerant of risk than you originally thought. A conversation with your adviser can help you better understand your feelings about risk and what the appropriate level is for your situation and the goals you have set. "Your investment decisions should align with your life goals and your values. Rely on your investment policy statement as the anchor to align your decisions and responses rather than reacting every time the markets surprise you," says Clemens.

- **You have become concerned about costs.**
  Review your account activity. Your investment selections may be to blame. Consider reducing the trading activity in your account or switching to low-cost mutual funds. Perhaps a more passive investment strategy using index mutual funds or exchange-traded funds (ETFs) fits with your investment goals. It may also be worth asking if your advisor provides fee-based services, such as asset allocation and fund selection, which may come at a lower cost than asset-based fees.

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- **You have decided that you want to part ways with your current adviser.**
  Maybe you want to pursue a different investment strategy or believe you've outgrown your adviser's firm. Have a frank discussion with your current adviser. Approach your advisor with respect, and demand the same in return. It's possible that your adviser will agree that your needs can be better serviced by another firm and would be happy to make a referral. According to Clemens, "If the relationship is failing for you, it's likely the same for your adviser." Remember, your adviser is someone whom you trust. Present your ideas and concerns, and give your adviser the opportunity to respond. As professionals, they can review your proposal and may be able to offer some insights you haven't considered. For example, maybe you have found a new manager who is suggesting a "complete realignment" of your portfolio, which might not be in your best interest if you're concerned about costs.

Frances Melville and William Ortel contributed to this article.

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