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WEEKEND INVESTOR

How to Fire Your Financial Adviser

Here's How to Proceed if the Relationship Isn't Working

By LIZ MOYER

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Each year, some investors dump the financial advisers they have been using. *Associated Press*

Investors discuss many tough issues with their financial advisers. How much risk should I take? When should I cut losses?

Sometimes the most important question is when to say "You're fired."

Cutting ties with someone who knows intimate details about your life and money can be fraught with emotion and doubt.

"It's the same part of the brain you use if you're breaking up with a boyfriend or girlfriend," says Brad Klontz, a financial psychologist based in Lihue, Hawaii, who counsels clients about personal finance.

"But it's OK," he adds. "You don't owe them anything."

There are many reasons it could be time for a change.

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If your income and assets grow substantially or your family goes through major events such as a divorce, for example, your financial challenges evolve, too. Your adviser's investment moves also may be questionable, if your performance is weak and market benchmarks are soaring, as many are now.

For advisers, getting dumped is part of the job, in good times and bad. About 4% to 6% of investors change advisers each year, though the figures were higher following the financial crisis, according to recent survey data from Spectrem Group, which is based in Lake Forest, Ill., and provides customer research to advisory firms.

The biggest group of advisers are brokerage-firm representatives, whose conduct is overseen by the Financial Industry Regulatory Authority. There are also registered investment advisers, subject to oversight by the Securities and Exchange Commission or state regulators.

Deciding to part ways is only the first step. Investors also need to figure out how to choose a new adviser—and whether they might be better off doing some of the work themselves. A few maneuvers can help the transition go smoothly. Here is what you need to know.

Is It Time?

James Bennett

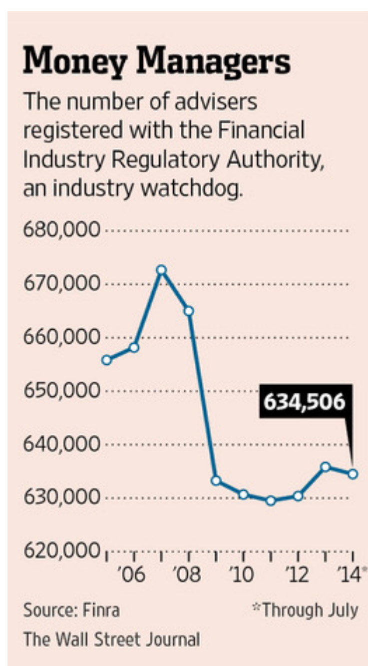
If an adviser isn't responding to your concerns or doesn't seem capable of resolving them, those are clear indications the relationship may be at an end, experts say.

"Communication is incredibly important," said Eleanor Blayney, consumer advocate for the Certified Financial Planner Board of Standards in Washington. "Ask yourself, do you feel you deserve more?"

But figuring out if the time is right to fire your adviser is often more complicated.

Some red flags are related to investment performance. An adviser should be able to show how you are doing compared with a broad benchmark, such as the S&P 500, says Allan Roth, a financial adviser at Wealth Logic, in Colorado Springs, Colo.

Be sure the benchmark isn't skewed to make the returns look better, adds Mr. Roth. For example, the returns on the S&P 500 minus dividends will be lower, and might put some gloss on an adviser's weak showing.



An adviser also should help you come up with an allocation of assets such as stocks and bonds that you can live with through thick and thin, he says, and then rebalance your portfolio back to that allocation periodically. If they don't, you aren't getting the kind of service you should receive.

All fees should be disclosed in writing. If they aren't, Mr. Roth says, it is "a really good sign it's time to get out."

Consider getting a second opinion about how your portfolio is doing, says Dave Dickinson, who runs a website called FireMyAdvisor.com and helps advisers find unhappy clients to lure away. Many will provide prospects free consultations and portfolio reviews, he says.

Don't be dissuaded by your adviser's winning personality, generous gifts or greeting cards at the holidays.

"I recently brought on an account from a couple in South Carolina who were in their 70s and switching after 34 years with the same adviser," says Ron Carson, chief executive of Omaha, Neb.-based Carson Wealth Management Group. "Their performance was terrible, but he was a nice guy."

What Should I Do Next?

Once you make the decision, there are other issues to consider. The most obvious is whether you need to find a new adviser, and how to find the right one.

Many people look to advisers for help in picking investments. Often, they could do fine for themselves by investing in low-cost index funds that track broad baskets of stocks and bonds and avoid the asset-based fees that many advisers charge, which can be 1% of assets or more annually on top of any fund fees or trading costs that may be incurred.

Nonetheless, many investors believe they are too busy or lack the knowledge to make smart investment decisions. So if you do choose to use an adviser, be a savvy client.

"Ask your adviser how he plans to justify the investment he's making for you. If it's just a bunch of mutual funds, you can do that yourself for less money," Mr. Carson says.

"Ask a lot of questions," Mr. Carson adds, such as what the top holdings are in the stock funds they choose. "If they can't answer it, they're just guessing about what a good investment is," Mr. Carson says. "You don't need to pay 1% for that."

Think hard about what else an adviser can do beyond choosing investments. If you have trouble managing your emotions when markets plunge, an adviser can help prevent rash decisions that could prove costly in the long run, such as dumping stocks after prices have dropped.

An adviser can help you stick to a long-term plan to save for big-ticket items, such as buying a home or paying for college. If you are retiring, an adviser also can help you figure out the most effective way to tap Social Security and your various savings accounts.

Business owners also can benefit from consulting with an adviser, as can older investors looking to pass assets to children or grandchildren in the most tax-efficient way.

Pick a new adviser who specializes in the issues you need help with. And try to find a firm where you match the profile of the typical client. An investor with limited assets might get little attention from an adviser whose clients are mostly wealthy, and vice versa.

"You want to be smack dab in the middle" of the adviser's client base, which can help align your needs with the adviser's strengths, Ms. Blayney says.

How Does a Change Work?

If you are switching to a new adviser, the new firm often can do the paperwork. The process of shifting the assets could take about a week. You also can ask your former broker to send you the file they have of your personal financial information.

Problems can arise, though, if the new adviser rejects some of the assets in your account with the former adviser. The most common reason is if you have a margin account that allows you to trade with borrowed money, and the new firm isn't comfortable with the collateral backing the loan, according to the Financial Industry Regulatory Authority, or Finra, an industry-funded watchdog. Investors with margin accounts should check first with the new adviser.

Another problem can arise when investors switch advisers as they get married or divorced, because transfers have to be made to the same type of account. So if you are moving assets from a joint account to an individual account, you have to create an individual account at your existing firm and transfer assets into it, then have the money transferred to an individual account with the new adviser, says Gerri Walsh, Finra's head of investor education.

While assets are being transferred to a new adviser, it may not be possible to trade in your account, experts say. It may take even longer before you can trade if the account needs a custodian, as in the case of an individual retirement account, Finra says.

If your portfolio is made up of exchange-traded securities, mutual funds, bonds or cash, the transfer process should go relatively smoothly. Hard-to-sell assets such as structured notes, annuities and limited partnerships can complicate the process. So can so-called proprietary products created and sold by your former adviser.

"It's important to find out what the new firm will accept," Ms. Walsh says. "You may have to keep your account open at the old firm" to hold assets that can't be transferred. Another alternative is to sell those assets.

Beware of selling assets owned for one year or less, experts say. Profits on short-term assets are typically taxed at the rate for ordinary income, which can be as high as 39.6%. Profits on longer-term assets are taxed at the relatively favorable rate for capital gains, which ranges from 0% to nearly 20%. High earners also may owe a 3.8% surtax in both cases.

Some advisers charge a fee to close an account, particularly if it was only open for a limited period. Ask if the new adviser will cover any termination fee.

Investors shouldn't assume they have to explain the change to a former adviser, experts say. "Financial advisers don't necessarily mind losing clients," says Mr. Dickinson of FireMyAdvisor.com. "You might not be their most important one."

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