Before changing financial advisers, ask key questions

Where to turn for names

If you're looking for an adviser, find names at **www.fpanet.org** or **www.napfa.com**, and interview planners before deciding. For more tips on selecting advisers, see my blog at **www.chicagotribune.com/money.**

The calls for help are frantic.

"Please find me an investment adviser who will stop losing my money," pleaded Earl Braunlin, a Ft. Wayne, Ind., doctor who thinks about the hundreds of thousands he has lost on his investments.

Unfortunately, finding a substitute is not as easy as people think. Nor is the decision about dumping a financial adviser.

As the stock market has plunged, even the most respected of advisers has lost client money. Fewer than one in 1,000 mutual funds made money last year, and fund managers are generally much more highly trained and experienced in stock-picking than brokers and financial planners.

Typically, brokers sell products, including stocks and bonds, and certified financial planners analyze what a client will need for the future and set up a mixture of stock and bond funds aimed at amassing the necessary sum.

Gail MarksJarvis

On money

But the training financial planners receive failed them over the last year and kept them from responding early enough to prevent sharp losses, said William Bengen, an El Cajon, Calif., financial planner and a thought leader in his profession.

"Nothing we studied as financial planners prepared us for a financial crisis," Bengen said. He thinks training has been too focused on the last couple of decades—a period with short downturns. Planners are taught that the stock market goes through ups and downs, and because it's difficult to predict the turns either way, the best approach is to establish a portfolio based on when a person will need to spend their money. Then, the idea is to stick with the mixture in good times and bad because upturns heal losses.

Now, though, for those wondering if they should abandon a planner, consider these questions:

■ Did your adviser contact you amid the downturn and talk about possible changes?

Good financial advisers check in with their clients periodically to see if they still have the stomach for their investments or whether their future plans have changed.

There is no reason to stick with an adviser who wasn't there to help in the downturn.

Deerfield, Ill., financial planner Sue Stevens called clients often and presented "what if" questions, such as: "If your portfolio goes down another 10 percent, how will you feel?" If they would suffer a loss that would impair their standard of living in retirement, she lightened up on stocks rather than waiting for more destruction than clients could bear.

■ Did your adviser address what losses would mean to your lifestyle?

For people under 40, advisers generally see plenty of years of saving as the antidote to losses in the market. But for people close to or in retirement, losses can be a disaster. Dan diBartolomeo, president of investment risk firm Northfield Information Services Inc. in Boston, said a good adviser will help clients estimate their basic living expenses in retirement and will insulate that money from risk. Savings in excess of the necessities can then be invested in stocks so there is the possibility of more growth over time, he said.

■ Did your adviser talk to you about risks?

Advisers are supposed to adjust portfolios so they aren't more risky than people can handle emotionally. The latest downturn caused emotional stress few could have imagined. But, as it was happening, there should have been a clear discussion about newly discovered risks.

A 77-year-old woman said that five years ago her adviser divided her portfolio 60 percent in stocks and 40 percent in bonds—a rather aggressive portfolio for her age—and never called as it dwindled in the market. When she called him recently, he suggested a change to keep only 25 percent in stocks.

Investors should dump an adviser who doesn't tell them if a portfolio is too risky. He or she should show you worst-case scenarios. For example, last year a person with $100,000 in a portfolio containing about 25 percent stocks and the rest in bonds and cash would have lost about $10,000.

Was a $10,000 loss too much or just fine? What matters for a person living on savings is whether the loss will curtail your lifestyle. A planner should illustrate how much a smaller portfolio leaves behind to cover your usual expenses. If your adviser doesn't do this, find another.

Gail MarksJarvis is a Your Money columnist. Contact her at gmarksjarvis@tribune.com.