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Protecting Your Interest:

Know What Questions to Ask Your Investment Manager

Imagine this: you're scrolling through your email inbox and happen to see a message from your investment professional. She (or he) has sent your periodic statements for your review. You open the attachment, peruse the investment performance, and decide it all looks fine. You delete the email and move on.

And then a small voice in the back of your mind nags at you: What if it isn't all fine? How do I know my wealth advisor is truly looking out for my best interests? Will his investment strategy hold up over time? Will I have the funds I need in the event of a large financial need, like a health crisis or employment gap? And how would I know?

GENTRY asked Katharine Earhart and Maya Tussing of Alesco Advisors, an independent, boutique investment advisory firm with offices in San Francisco and Upstate New York, what steps to take to determine whether your portfolio is on track for long-term performance. They suggest asking three key questions of your investment professional:

1. What is my asset allocation strategy?
Asset allocation establishes a mix of asset classes that correspond to an investor's tolerance for risk and their required return for a long-term investment horizon. Many academic papers have demonstrated that asset allocation is more significant in determining long-term investment performance than security, fund or manager selection.

Why it matters: Investment advisors that use security selection or even mutual fund selection as their guiding light are more likely to change horses in knee-jerk response to a good or bad run in the markets. This strategy of "chasing returns" could cause your portfolio to underperform over the long term. A high-quality professional will have a solid asset allocation philosophy and stick to it. But if your advisor has a fuzzy approach to asset allocation or changes his or her asset allocation strategy depending on market conditions, think about whether they are acting in your best interest.

Asset allocation is the most important component to long-term investment performance.

2. What is my total cost of ownership?
When it comes to investment management costs, we usually know the investment professional fee structure, be it percentage rate, percentage tiered, fixed or flat fees or hourly rate. What we often forget—or aren't aware of—is that advisory fees aren't the only expenses we're responsible for. Additional expenses are, among others:

- *Trading costs* of buying and selling securities and funds, as charged by broker/dealers, which range widely by volume and asset class.
- *Underlying fund fees*, which can range from under 0.1% for many index funds to over 2% for speculative active funds. For example, a $1 million investment, assuming an average 8% return and charging 1.30% in fees over 30 years, could reduce your returns by 20% versus a portfolio charging only 0.50% over the same period.
- *Taxes* on capital gains generated when a portfolio manager sells securities for more than their cost basis. The higher the portfolio turnover—how frequently assets are bought and sold—the more you'll be paying in taxes and trading costs.

Why it matters: Study after study has shown that paying more doesn't equate to better returns. Costs simply eat into your performance. Ask your advisor to show you a 20- to 30-year analysis of your current portfolio versus lower cost equivalent index funds that have lower portfolio turnover. If the difference is significant, you should question your advisor's fund selection strategy.

Costs eat into performance. Paying more doesn't correlate to higher returns.

3. Are you a fiduciary?
Some advisors are compensated by mutual fund or asset management companies to invest certain funds into your account, even if those funds don't contribute effectively to your long-term goals.

Why it matters: You may have investments in your portfolio that contribute more to your advisor's wallet than your own. If your investment professional follows a fiduciary standard, before signing a contract with you, he or she is required by law to disclose how they are compensated and what conflicts of interest, if any, they may have in place. But if your investment professional follows a suitability standard, he or she must make investment recommendations that are suitable for you but not necessarily in your best interest. In other words, they have no obligation to tell you how they're compensated. Ask your advisor if they are a fiduciary and whether they earn commissions, a markup, or a spread on funds they purchase on your behalf.

Investment selection should not be influenced by incentives or other forms of compensation.

In conclusion, if you're paying someone to manage your investments for the long term, make sure that individual is indeed looking out for your financial interests. In addition to routine performance updates, it's a good practice to periodically check in with your advisor on the health of your investment management by asking these simple questions. If you're not getting the answers you want or need, you may want to explore other options. Many investment advisors offer complimentary portfolio reviews.

ABOUT **ALESCO ADVISORS**

Katharine Earhart and Maya Tussing lead the West Coast office for Alesco Advisors. As an independent, employee-owned investment advisory firm founded in 2000, Alesco advises on $3 billion in assets under advisement for foundations, endowments and retirement plans, as well as trusts, IRAs and individual taxable accounts. Katharine and Maya each bring more than 20 years of financial services experience including asset allocation, risk management and portfolio management experience as well as their community-based approach to clients in the greater Bay Area. Contact Alesco at **info@alescoadvisors.com** or **415-293-7790**.