

# Red Flags When Selecting an Advisor\*



Determining the quality of a financial advisor is a major challenge if you don't know the right questions to ask and good answers from bad ones. This challenge is more difficult than it appears because advisors have spent years perfecting sales pitches that make them sound like competent, ethical financial experts.

## Major Red Flags

There is an easy way to determine the quality of advisors without knowing all of the right questions to ask. You can use a process of exclusion. That is, you don't accept all of the information in sales pitches. Instead, you look for reasons to exclude advisors from your selection process by asking questions that uncover "red flags." When you identify a red flag, you exclude the advisor from further consideration.

Following are some major red flags that will help you determine the quality of advisors who want to sell you products or services:

**Red flag advisors who hold only securities and/or insurance licenses (Series 6, Series 7, annuity, life).** This type of licensing means you are talking to sales representatives, not real advisors. Their activities are limited to selling products for commissions. You want real advisors who are Registered Investment Advisors or Investment Advisor Representatives. They provide ongoing advice and services for fees. They are held to the highest ethical standards in the financial services industry.

**Red flag advisors who do not acknowledge they are fiduciaries when they provide financial advice and services.** Nonfiduciaries are sales representatives. Fiduciaries are required to put your financial interests first.

**Red flag advisors whose only method of compensation is commissions.** Sales reps are paid commissions. Real advisors are paid with fees, like other professionals you depend on for specialized knowledge.

**Red flag advisors who claim to be investment or planning experts, but provide no documentation for their expertise.** Anyone can claim to be an expert. Real experts provide documentation because they have nothing to hide.

**Red flag advisors who are employees of companies that manufacture investment and insurance products.** They may try to limit some or all of your choices to their companies' products. This type of advisor frequently lacks the independence to do what's best for investors.

**Red flag advisors who want you to hire them based on verbal sales pitches.** They control the information, so you only hear what they want you to hear. Verbal information is easy to misrepresent. Verbal information is easy to deny later when it's your word against theirs.

**Red flag advisors who use greed and fear presentations.** On the greed side, they market the performance of hot products to establish themselves as experts and appeal to your need for results. What they don't tell you is that they picked the products after the performance occurred (anyone can do that) and that high past performance has a low probability of repeating itself in the future. On the fear side, they market low-risk products to establish a relationship by appealing to your fear of loss. Once they have established a relationship and a level of trust, they can market products that make them the most money.

If you look for these red flags in your selection process, you will quickly reduce the number of advisors for your consideration to a small number of professionals who will focus on your needs, not their own.

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## Contact Us

At Wipfli Hewins, we believe all people should be served by such professional advisors. If you have any questions or would like to discuss these red flags in more detail, please contact Ed Drake at **608.270.2917** or [edrake@wipfli.com](mailto:edrake@wipfli.com).

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