MORE INFORMATION

www.fma.govt.nz
To find out more about choosing and working with an adviser.

www.fspr.govt.nz
To check the official register for financial advisers.

www.sorted.org.nz
For information about managing personal finances, including: budgeting; saving; retirement planning; and investing.

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5 QUESTIONS TO ASK YOUR FINANCIAL ADVISER

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5 QUESTIONS TO ASK YOUR FINANCIAL ADVISER

FMA encourages anyone who is thinking of investing, to seek financial advice first.

When talking to a financial adviser there are several important questions you should always ask.

Under New Zealand law, only Authorised Financial Advisers (AFAs) or Qualifying Financial Entity Advisers (QFE Advisers) can give personalised advice on complex investment products.

- AFAs have met minimum qualifications and professional standards. They can advise on complex investment products and can also offer investment management and planning services. Their licence will set out the types of service they are authorised to provide.
- QFE Advisers, e.g. bank staff, can advise you on investment products like KiwiSaver or managed funds but only on the products provided by their company.
- Both AFAs and QFE Advisers have a legal responsibility to act with care, diligence and skill. They can save you time, and help you achieve your financial goals. But remember, it's your money so you need to ask the right questions before you invest.

1 . "How do I know what you're recommending is the best option for me?"

Your adviser should put their recommendations in writing, setting out what they're recommending and why.

- Has your adviser asked you lots of questions about your circumstances and needs?
- What is your tolerance for the ups and downs of investment markets?
- What are your financial goals?

Think about: Has the adviser helped you prioritise your financial objectives, explained and discussed choices with you, and developed a strategy to help you achieve your objectives.

2. "What are the risks of this investment?"

All investments carry risk. Your adviser can't protect you from investment risk, but it's their job to ensure you understand what you are getting into.

- Has your adviser provided clear and simple explanations about how the investment(s) you're considering will work and what could go wrong?
- If your adviser is advising you to change from another product, they must tell you the costs as well as the benefits of the switch, or tell you that they cannot provide that comparison because they are not familiar with the other product.

Most investment products will have an investment statement which your adviser must provide to you. It is very important that you read this information. Your adviser will be able to explain terms that may not be familiar. You can also request a copy of the prospectus which provides more details about the product.

Think about: Do you understand how you can make, or lose, money from this investment?

3. "What will I pay?"

Some advisers charge a fee-for-service. Others charge a commission or may receive sales related incentives. Details of any fees or commission that apply must be provided to you in writing in a formal disclosure statement before you pay the adviser any money.

Check to see if they charge ongoing service fees. If so, find out what that service means. Will you get regular reviews of your circumstances and investment portfolio? Will re-balancing of your investment portfolio be necessary? If you are paying ongoing fees, you should expect to have reasonable access to your adviser when you need questions answered or want to discuss a financial issue with them.

In addition, some products have entry and exit fees and may charge ongoing management fees and expenses. This information should be explained in the investment statement so be sure to read it.

Think about: Are the adviser fees reasonable for the services you will receive? What impact will the product fees have on your returns? Remember even small differences in fees can translate into large differences in returns over time.

4. "What information will I receive about my investments?"

Find out how often you'll receive reports or transaction statements showing the value of your investments and the fees and taxes paid. It's important to have this information so you can watch out for warning signs that something may be going wrong.

If your adviser is providing you with ongoing service, ask how often they'll contact you. Remember things change, so it's important to review your plans at least once a year.

Think about: Do you understand how to interpret the financial reports you'll receive? Do you want ongoing service and calls when changes need to be made and what will this cost?

5. "How can I get my money back?"

If you've agreed to a fixed term investment you may need to pay a penalty and/or fee to get your money back. Or you may make a profit or loss, depending on the price of the product at the time you want to sell it. There may also be restrictions, for example, units in some managed funds can only be sold at the end of a month, or there might be a limited market for some types of products.

Investments in KiwiSaver and other superannuation funds are often locked in until you retire. If this is the case, you usually can't get your money out early.

Think about: Have you got enough money readily accessible if you need it? Some advisers may recommend you put 'emergency' money in a cash fund, but remember entry and exit fees may apply.