

What to Ask Before Investing

By Steve Braun

I enjoy reading *The Wall Street Journal* and have always found it to be a great resource. I am most impressed with their commitment to honest journalism on relevant topics. The October 4, 2004 edition included a landmark article that every investor should read. It was titled, "What to Ask Before Investing." Below are the key questions, according to *The Wall Street Journal*, that every investor should ask *before* investing in any mutual fund.

Questions You Need to Ask

- If I buy fund shares through an adviser, how is that person paid?
- How much will I actually pay for my adviser's service?
- If the fund has multiple share classes, which is the best share class for me?
- If a fund has multiple share classes, does my adviser have a financial incentive to propose one class rather than another?
- Am I getting any commission discounts to which I am entitled?
- Does my adviser have a financial incentive to recommend this fund rather than others?
- Turning to my adviser's firm, does it have financial incentives to promote this fund rather than another?
- What revenue-sharing payments does my adviser's firm receive from companies involved with this fund, if any, and what does the fund company get in exchange?
- Looking more broadly at the total costs of owning this fund, are the annual charges reasonable compared with peers?

The Heart of the Matter

Good luck wrangling with your adviser to get answers to these questions! Notice that the entire focus of these questions is the adviser's compensation. This is a huge issue that many investors overlook, much to their chagrin. As I have amply described in other articles, conflicts of interest abound whether your adviser is paid on the commission-based system or the asset-management system. You must be very careful. Of course, you can eliminate these issues completely by working with an adviser who is only compensated on an hourly basis. No selling. No pressure. No hidden agenda. Doesn't that sound more like the kind of trusting relationship you deserve from your financial adviser anyway?

How Can You Avoid These Conflicts?

At Liberty Financial Planning, we believe that compensation based on an hourly rate for services rendered is just more sensible for clients because it eliminates conflicts of interest. We work hard to provide you with unbiased advice that's best for you.

Give Liberty Financial Planning a call today for a free initial consultation to see how we can help you.