# How to choose an investment advisory firm

Choosing an investment advisory firm, (often described as stock brokers, financial planners, or wealth managers) that helps you to build your investments is the single most important decision you will make as an investor. It doesn't matter if you are a beginner or have been investing for many years; it's never too early or too late to start asking questions. So, before you decide to invest your hard earned money with an investment advisor who you can trust and feel good about, there are a few questions you should ask yourself.

## Assess your situation

Get started with information you already know, like your income, savings, how long you can continue to earn, children's age and the amount you want to invest. Then focus on your short and long term goals and upcoming financial requirements like purchase of a home, children's education, or retirement. The more money you have to invest the greater your options would be. Understand your risk tolerance level - how much money you can afford to lose in the short-term while you await the long-term goal realization, because the higher the return you demand from your investments, higher the risk you will have to take.

## Identify and prioritize what's important for you?

Every investment advisory firm can give you access to the stocks traded in the Colombo Stock Exchange, but depending on the type of firm, you may get access to a wider array of asset classes to invest in, such as government securities, corporate bonds, unit trusts, private equity and international stocks through which you can build a more diversified portfolio of investments based on your risk tolerance level and return objectives. In general, the more assets you invest, the more help and advice you'll have access to.

## Determine how involved you want to be

Do you have the time to follow and pick your investments, or do you prefer to sign up for a discretionary account giving the advisory firm the full authority to manage your investments and trade at their discretion on your account? Find out what services are offered and whether the firm's services go with your needs. Most clients in Sri Lanka do not have discretionary accounts but allow investment advisers to trade stocks on their behalf.

## Find out what kind of investment advice and research support you require

Investment advisory firms offer a range of services, from basic internet trading for you to manage investments on your own, to regular on-going research and objective advice that's in your best interests from investment advisors who speak to you regularly, to completely managing your portfolio of assets for a fee as a percentage of the value of your portfolio  The level of service you get typically depends on the type of advisor, the professionalism of the staff they employ, and how much you are willing to pay for their services. It is up to you to make sure the amount and quality of advice you get is worth what you pay for.

## Get referrals about your Investment Advisor

To get the best Investment advisor that suits your needs, get as much referrals as you can.    You can find out from other people about the broker they use and why they have selected them, it is better to choose someone whom you have heard good things about.

Once you have identified what sort of an investor you are and the services you require from your advisor, you should put each firm through the following criteria.

## Does the investment advisory firm adhere to the highest standards of ethical behavior and fiduciary responsibility?

Ask them if the firm or their investment advisors have been disciplined by any government regulator for unethical or improper conduct or been sued by a client for the breach of fiduciary responsibilities.

Investment firms should always provide accurate and complete information to their clients. However, some investment firms, due to the lack of fiduciary and code of ethics and standards professional conduct within the firm, provide investors with inaccurate, incomplete, or biased information in an effort to manipulate the stock market. An advisor can achieve this through:

- Biased investment advice: the firm may have a bias for or against investments for reasons that are not disclosed to the investor

- Unfounded advice: advice may be provided based on unqualified or unfounded opinions of the firm without the benefit of due diligence

- Contradictory investment advice: the firm may be giving contradictory advice to different clients

### Does the investment advisory firm manage your investments with prudence, taking fundamentals into consideration, with a goal of providing clients returns that are consistent with their risk tolerance levels?

Ask the firm to provide you with a clear understanding of the firm's investment objectives and compare them with your investment objectives to see if they complement each other.

If the investment sounds too good to be true, it probably is. Always be careful of investments that promise "guaranteed" or "risk-free" astronomical returns. Also make sure that you fully understand the investment before you part with your hard-earned money.

### Does the investment firm have the required licenses and can they provide client references?

Remember that it's your responsibility to find out if the investment firm has the proper licenses. A good first step would be to check with the Securities and Exchange Commission of Sri Lanka, secondly speak to few of their existing clients. If you do business with an unlicensed investment firm and the firm goes out of business, you may not have any remedy.

### Does the investment firm communicate candidly with you about investment risks?

During your initial consultation with the firm's representative, did the representative provide you with a clear understanding of each investment option's risks and rewards?

Listed below are some questions you could ask the firm's representative in order to get a better idea of the risks and costs associated with each investment option.

- How will this investment make money? Specifically, what must happen for this investment to increase in value? Is the return an appreciation of capital or an income on the capital deployed?
- What's the total cost to purchase, maintain, and sell this investment? After all the fees are paid, how much does this investment have to increase in value before I break even?
- How liquid is this investment? How easy would it be to sell if I needed my money urgently?
- What are the risks associated with this investment?

### Does the investment firm maintain highly effective risk management systems, information security and controls to protect the firm, your assets and confidential information?

Ask the firm about the safeguards they have put into place both from a security of your information and risk management point of view.

These questions are not exhaustive. However, we believe that they will help you identify an investment firm that will best meet your personal investment objectives.

A good investment advisory firm should welcome such questions from its clients and potential clients, no matter how basic, because a good investment firm knows that an educated client is an asset, not a liability.

(Source: Heraymila Securities Ltd)