5 Questions to Ask Your Financial Planner

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Like everyone else, my investments have lost a lot of money recently. I work with a financial planner, and I'm wondering how much of it is his fault and how much is happening across the market. How can I find out if my financial planner has really been doing his job through all of this?

This is a great time to assess the help you've been getting from your financial planner. Everyone's been losing money, so you shouldn't be unnecessarily harsh on your planner just for having a negative return. But some planners may use the widespread downturn to hide big mistakes. Here are some key questions to help you determine how your financial planner really stacks up during these volatile times.

1. How have my investments actually performed? It's scary to watch the Dow drop by more than 700 points in one day. But how does that compare with your own investments? "To some extent, everyone is seeing market losses right now," says John Gannon, senior vice president of investor education for the Financial Industry Regulatory Authority (FINRA). "But it's really an important time to open your account statements and take a look at them and benchmark your performance."

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Ask your financial adviser to compare the performance of your investments to relevant indexes or to other funds with similar investing strategies -- focusing on the past few months and years, not the day-to-day gyrations. If your investments are doing much worse than those benchmarks, then your adviser may have made some bad choices. If they're doing a lot better, is it because the adviser made some good decisions or lucked out on some risky investments? Ask for a detailed explanation.

Also ask about the performance of your overall portfolio, focusing on the past one, three and five years. "I really feel that no financial-planning client or investment advisory client should be doing as badly as the markets; that is, if the broad market is down 25%, then they should be down no more than 20% and probably less," says Bob Veres, publisher of Inside Information, a well-respected newsletter for financial planners. "The best advisers always make sure their clients keep enough cash and ultra-safe bonds on hand that nobody has to sell stocks into the teeth of a bear for two years." Your adviser also should have ensured your portfolio was diversified. If not, it would be a "a reliable sign of incompetence," Veres says.

2. How do my investments match my time frame and goals? One of the biggest benefits of working with a financial planner is that he or she should pick investments within the context of your overall financial plan -- dividing your savings into several sections and selecting the investments for each based on your time frame and goals. That way, you can keep your long-term money primarily in stocks and stock funds for future growth but don't need to sell when they're down to cover your bills.

"You never have the money you need for this year exposed to any risk," says Mark Johannessen, a certified financial planner in McLean, Va., and president of the Financial Planning Association. Ask the adviser how he or she decided how much of an emergency fund you should have, where it's invested and how liquid it is.

And ask about the adviser's strategy for meeting your medium-term goals. "Our retired clients have five to eight years' worth of certainty in their portfolios" with investments such as Treasury bonds, municipal bonds, diversified bond portfolios, bond ETFs and CDs, Johannessen says. "You always want your retired clients to sleep at night and not worry about getting up in the morning and turning on CNBC."

3. What adjustments are you making because of this market? "A good adviser will have put a plan in place that expects horrible times in the markets," says Daniel Moisand, a certified financial planner in Melbourne, Fla., and chairman of the Certified Financial Planner Board's disciplinary and ethics commission. "If you found yourself clueless that your portfolio could drop, you have to consider whether you were well prepped by your adviser in the first place or whether he or she failed to fulfill a promise."

The adviser shouldn't make rash decisions during a market downturn, especially if you've been well-diversified and your investments match your time frame and goals. "Any adviser who says you should sell everything during the capitulation period of a bear market is not somebody I would want to work with," Veres says.

But the adviser should be making some changes to take advantage of the situation. "What you're looking for is an advisor who sees opportunities to offset capital gains with losses, provides better diversification and advises against making wholesale changes until the market has regained its stability. I would look for an adviser who recommends cautious additions to your equity exposure during this downturn," he says.

Veres recommends asking advisers about other downturns they've experienced in their careers and what they learned from them. "The only right answer is that the market always recovers, always unexpectedly, and it's always better to raise equity exposure at times when your gut is telling you to do just the opposite," he says. "The downturns are always different, never predictable ... and in the end they make it possible for professional and wise investors to buy stocks at prices that normally would not be available."

4. How much am I paying for guarantees? Some "advisers" may offer to eliminate future worries by selling a product promising big guarantees. "I would be highly skeptical of any product pitches that purport to have severed the relationship between risk and reward," says Moisand. "You'll see a lot of advertising for bonus CDs, annuities and indexed annuities in particular. Most of these things are safer from a market volatility perspective but come at significant prices people don't understand and wouldn't pay if they were not under duress from the market losses."

In some cases, the adviser may be preying on your fear of losing money just to earn a big commission on a product that might not be appropriate for you. Ask how the product works, how much it costs per year, how much access you have to the money, and how much the adviser receives in commission. Read FINRA's Investor Alerts for more information about these types of investments.

5. How do you plan to keep me updated and answer questions? You can learn a lot about your financial planner during this crisis -- not just how he or she manages your investments, but how well the adviser explains the situation and what action you should take, answers your questions and makes you feel more comfortable. "This is probably the time when you need your financial professional more than at any other time," says Gannon.

And your adviser should be giving you the attention you deserve now. "The very best advisers cannot help but feel an empathetic connection with their clients, cannot help but feel your sense of loss and anxiety, and will not be able to help wanting to address and alleviate it," Veres says. "In many cases, they will also tell you that they, too, are anxious and concerned, and that they -- like the rest of us -- don't yet know how it's all going to turn out, but they're monitoring it on your behalf and will do your worrying for you."