

The 19 Questions You Should Be Asking Clients

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One of our main objectives as advisors is to learn our clients' fears, hopes and dreams. But to do this, we must ask the right questions. As a practitioner for more than 25 years, I have found that asking the following 19 questions (with accompanying reasons) can form the foundation of a valuable client-advisor relationship.

- 1. How are your assets currently invested?**
Finding out which assets are in taxable, tax-deferred and qualified retirement accounts must be ascertained before any recommendations can be made. Current holdings may or may not need to be repositioned. Simple changes such as moving tax-inefficient assets (e.g., taxable bonds, money market, etc.) into tax-advantaged accounts can easily decrease taxes. As a general rule, nonretirement accounts should include as much of the equity portion of a client's overall portfolio as possible (the reason is that there is a 5 percent or 15 percent tax rate on capital gains and most dividends).
- 2. What are you trying to do with your money?**
This is where we learn about the client's concerns, dreams and hopes. We can also see whether or not her current portfolio matches those goals and objectives. Everyone is either looking for growth, income or a combination of the two. The average pension fund has a 60/40 equity-to-fixed-income mix, which may or may not be appropriate for our client.
- 3. What has been your favorite and worst investment?**
Finding out what the client has liked and disliked will go a long way in discovering what biases she may have. As an example, if your client hates gold, you probably do not want to recommend it, even if it would represent a very small percentage of the portfolio. Such recommendations can make the client lose some trust and/or confidence in your skills.
- 4. What do you like most and least about your current advisor?**
The client has decided to see you for one or more reasons. Most likely, she is not happy with the way her current advisor works or with her investment results. Find out so you do not make the same mistakes. You may find that the client is just looking for a second opinion; in such a case you may want to limit the time spent or figure out how you are going to be compensated for your suggestions.
- 5. What kind of paper gains or losses do you have?**
This could give rise to some "tax harvesting," making sales to generate realized losses that can be used to offset any gains, plus up to \$3,000 of ordinary income each year. This also provides an opportunity to explain to the client how Uncle Sam will also share in her losses and that losses are never lost (until used up or death).
- 6. Are you carrying forward any losses from previous sales?**
Due to the market meltdown of the early 2000s, a large number of investors have losses they are carrying forward. These losses will give you some insight into what has not worked out for the client in the past and how she feels about it. Moreover, any loss carried forward may alter the strategy you are going to be recommending.
- 7. What is the value of your home and your equity?**
A home equity loan or reverse mortgage could be a source for emergency funds. The idea of taking out a loan to make an investment should only be considered for aggressive investors. Determining home equity is important in establishing net worth and whether or not any mortgage debt should be restructured.
- 8. Do you view your home as an asset that you would consider selling?**
Some clients view their home as an investment, others as something that will never be sold, even there is a huge built-in profit. If the home is not viewed as a possible investment, then any assets weighted in real estate should be increased (e.g., REITs, real estate mutual funds and/or variable annuity subaccounts).

9. **What debts do you have, if any?**
The appropriate risk level can change in light of how much debt the client has and how much income is used to support that debt. Many older clients have no mortgage, but younger individuals and couples frequently are paying credit card debt that is at a higher rate than their investments are earning — a very bad situation that can easily be corrected by liquidating appropriate investments and paying down any and all high-interest-bearing debt.
10. **What is your current work status, and do you have any plans for the future?**
A fairly high percentage of seniors either want to continue working past age 65; some will be forced into such a situation. Earned income creates opportunities for funding qualified plans with pre-tax dollars. The tax-deferred growth in such accounts may cause the advisor to rethink how assets are to be positioned. Perhaps most importantly, an ongoing, steady paycheck may mean that the overall risk level can be slightly increased.
11. **What is your approximate gross and taxable income?**
There may be opportunities to increase the client's after-tax income without increasing risk (e.g., shift CD monies into municipal bonds or annuitization). Knowing her tax bracket will go a long way in deciding what current and future investments should be in tax-free, taxable or tax-deferred vehicles.
12. **Are you depleting your assets or adding to them?**
Someone who has more money coming in than going out can most likely accept more risk than someone who has a negative cash flow. Ineffective investments or simply poor planning may be the cause of depletion. The client may need to be advised that a change in lifestyle may be necessary before the "point of no return is reached" (this is when the cumulative drop in the portfolio cannot be made up without assuming ridiculous growth rates and that a zero net worth is what will happen if something is not changed).
13. **Do you have any plans for marriage or divorce?**
The financial impact of a divorce can be devastating, as well as emotionally draining. Marriage, on the other hand, could result in an increased net worth. At the very least, either situation warrants a review of the "combined holdings" to look for overlap or a possible change in risk.
14. **Do you support anyone now or expect to?**
More and more adult children of successful workers and retirees are looking to their parents for financial support. A home equity or mortgage refinance may be the easy way to get money, but such debt could mean that mom and dad will now have to postpone their own retirement for an additional 10–15 years. Children may have to learn that it is they who will be encumbered with things such as student loans. As the advisor, this is an opportunity to explain different loan program alternatives.
15. **Do you plan on selling your home?**
The personal residence represents either the largest or second-largest asset owned by the vast majority of Americans. The windfall from the sale of a home can solve the financial concerns of its owners, as well as those of future generations. Most homeowners still believe (incorrectly) that tax-deferred exchanges are still possible (this ended in 1996), or that there are special tax breaks for seniors (there generally are none). The advisor can explain the taxation of such an event (first \$250,000 of gain, \$500,000 if married and filing a joint return). The client will be relieved to know that the vast majority of the selling price will go into her pocket. Once the computations are made (e.g., paid \$300k and sold for \$900k, which equals a \$600k gain, but subtract \$500k and only pay 15 percentage on the remaining \$100k of profits), the client will be more open to new investment and protection strategies.
16. **Any extraordinary financial events expected?**
Without asking the question, the advisor may not know that the client is about to give a child \$20,000, buy a \$50,000 car, or inherit money from aunt Jane. Expected large inflows or outflows of cash, even if they are just one-time events, can affect portfolio liquidity and which accounts should be added to or subtracted from.
17. **What is your idea of a "perfect estate plan?"**
Some clients want to leave as much as they can to their children, others ideally want to

die at the same moment they are spending their last dollar. The client's notion of the "perfect estate plan" will tell you whether a process of annuitizing or spending down interest and principal makes sense. This is also the time to review different types of insurance and any existing policies.

18. Have you been to any recent seminars, read any financial books, etc.?

Measuring risk level is almost as subjective as it is objective. Part of this art is ascertaining any "recency" (a term used to explain how recent events overweight our perceptions of risk). Someone who has just attended a seminar titled "The Coming Great Bull Market" may now view stocks as the answer for everything.

19. What do I need to do to make you extremely satisfied?

Depending on the study cited, it takes anywhere from four to seven times as much money or resources to gain a new client than it does to keep one. Finding out what the client is looking for in you (e.g., "return my calls promptly," "do what you say you are going to do," "get me an overall return of 8 percent a year," etc.) will go a long way in maintaining a long-term relationship, and may form a foundation for future referrals.