

MOON CAPITAL MANAGEMENT, LLC

Questions to Ask a Prospective Investment Advisor

1) *How is the investment advisor compensated? Is the advisor affiliated with any other entities that might receive fees from your account?*

This is a difficult and often murky issue. Asset fees, front-end loads, back-end loads, 12-b(1) charges, administrative charges, account fees, custodial fees, commissions...the myriad of ways you might potentially compensate a broker or advisor is almost endless. If someone tells you there are no fees, they are likely misinformed or confused. There are always fees. Always ask your advisor to enumerate each specific type of charge that might occur in your account – not just the ones he or she receives. Always ask your advisor how he or she is compensated and if other clients/investors in similar situations ever pay less compensation. Ask if there is a less expensive way to receive the same product or service.

2) *Does the advisor have trading authority or does he/she make recommendations to you?*

You should never give a stockbroker the authority to place trades in your account without your prior approval. Since a stockbroker can be compensated for each transaction, this creates a potential conflict of interest. Some *Registered Investment Advisors* prefer to work this way, as well - making recommendations to you and implementing them only with your prior approval. Other advisors work with a trading authorization that gives them authority to place discretionary trades in your account. If this is the case, the authorization documents should clearly explain that the advisor has authority to make trades within the account, but not to withdraw funds from the account.

3) *Are there any costs to terminate the relationship with the advisor?*

During much of the stock market turbulence in 2000-2002, this issue became more prevalent. As brokers and advisors lose accounts, they look for ways to generate fees from this labor-intensive process. Always ask if there is a fee to close or transfer an account. If there is, ask if the advisor is willing to agree in writing to waive the charge.

4) *What is the staffing structure of the advisor? How many people will work on your specific account? Who performs investment research and makes portfolio management decisions? Are these the same people with whom you will have contact, or are they located somewhere else?*

Who will actually be doing the work on your account and will you have access to them? This may or may not be important to you. In some situations, your contact is a relationship manager who relies on others to do investment research and management. If so, you want to know who actually manages your account. In other situations, the “relationship manager” may be nothing more than a sales agent for one or more third party partners.



**Questions to Ask Prospective Advisor
(continued)**

5) Under what regulatory organization is the advisor registered/licensed? Ask for a copy of all registration and licensing documents.

Any advisor with whom you work will be regulated by either the Securities and Exchange Commission (SEC) or Financial Industry Regulatory Authority (FINRA.) Small advisors (those with less than \$25 million in assets) who are not brokers will be registered and regulated by the individual state(s) in which they conduct business.

6) Has the advisor ever been sued in connection with his/her employment as investment advisor? Is the advisor currently the subject of a pending client complaint or lawsuit? If so, please provide details.

When interviewing a potential advisor, you should always ask this question. SEC Registered Investment Advisors must report this sort of action on Form ADV. This is a public document and is provided to all new clients. Brokers are not required to disclose such suits, complaints or settlements. You should ask the question anyway.

7) How are my assets safeguarded? Who actually maintains custody of my assets?

This is an issue with which investors seem to be becoming more sophisticated. Each month, you should receive a statement from the person who physically holds your assets. This entity is your *custodian*. As long as the assets are held in an account covered by the Security Investors Protectors Corporation (SIPC), your assets are safeguarded against fraud. Some institutions offer protection against fraud in amounts as high as \$100 million.

8) If an advisor shows you historic performance numbers, are they calculated according to a standard methodology?

This has been a difficult point for the investment community for years. The Chartered Financial Analysts Institute has a standard methodology for calculating and presenting performance numbers. Ask if an advisor's performance history complies with the Global Investment Performance Standards™ as established by the CFA Institute. If an advisor is showing you a specific product or fund and touting its track record, there is little you can do to verify if that advisor is merely showcasing the most recent well-performing fund or if that fund is representative of the advisor's historic investment selecting skills. Ask the question.

