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How do you know you're getting good financial advice?

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A few years ago, when Colette Griswold collected a family inheritance, she knew she needed advice to help her figure out what to do with it. So the Guelph, Ont., resident did what many others in her position do: She hired a financial adviser to walk her through the options.

Ms. Griswold still uses the adviser and has been happy so far. Yet she admits that when it came to his past suggestions to open her portfolio to more risk, she hesitated. Was he giving her good advice? How would she recognize less-than-stellar guidance?

"It's like getting a plumber. Should he really be changing all the pipes in the house, or not? You just don't know," she says.

Talk is cheap, but the ramifications of bad financial advice can be incredibly costly. Investing in the wrong companies at the wrong time can make the difference between retiring comfortably at

60 or years later. It also often takes a long time before you can really see if your investments are going to help you meet your long-term goals. Waiting until you're, say, 64 to see if you're on track for retirement is far from ideal.

So is it any wonder that clients can feel a little on edge about what kind of guidance they're getting?

Perhaps knowing that financial advice seems to offer true benefits overall can help quell some of that unease. A 2012 report from the Centre of Interuniversity Research and Analysis on Organizations (CIRANO) in Montreal states that, over all, advice has a positive and significant impact on financial assets. People who seek out and follow financial advice are more likely to avoid single stock picking, do less speculative trading and have more diversified portfolios than people who go it alone.

Greg Pollock, president and chief executive officer of Advocis-The Financial Advisors Association of Canada in Toronto, says that finding the right planner puts you on track toward getting advice you're comfortable with. That means interviewing a few people, asking a lot of questions and going with your gut. “Sometimes it's an intuitive feeling. It's not something that can be empirically measured,” he says.

It goes both ways. From the planner's point of view, getting to know a client is the first step to giving good advice, says Judith Cane, a money coach with Money Coaches Canada in Ottawa and a former financial adviser. “You want your adviser to spend a lot of time figuring out what your risk tolerance is so they know what kind of advice to give you. Don't think that answering just six questions is enough,” she says.

And as far as Ms. Cane is concerned, no advice can be just as damaging as bad advice. A planner or adviser should be contacting clients and touching base at least quarterly, she says. That way they'll know if anything has changed in the person's life and can rework the financial plan if needed.

Still, even if an adviser sends out monthly newsletters, birthday cards and checks in from time to time, it's still important to look for hints that indicate he or she is not looking out for a client's best interests, Mr. Pollock says. Some red flags include:

The adviser is promising consistent returns on your investments. Although we hope that what we buy will go up year over year, that's not realistic, and anyone who tries to convince you otherwise probably has reasons to mislead you. “Stock markets go up and they go down. Legitimate results will vary over time,” he says.

The adviser is encouraging you to invest beyond your comfort zone. Remember those questions you answered when your adviser was getting to know you? If your adviser is now pushing you in a direction that he or she knows you're uncomfortable with, there's something wrong.

The adviser is offering you an exclusive opportunity. Maybe the Warren Buffetts of the world get these calls, but for the rest of us, we put our money into vehicles meant for the masses. “Special deals are very unusual. Most opportunities are available to a wide range of clients,” Mr. Pollock says.

The adviser is vague about how he or she is paid. In Canada most advisers and planners still receive commission, at least partly, when they buy investments on your behalf. A good adviser is a transparent adviser and will tell you exactly how much money is in it for him if he moves your money. A conflict of interest? You get to decide.

Still wondering if the advice is sound? There are fraudsters out there, but it's in most advisers' best interests to make sure their clients are doing well. Not only do they probably rely on your referrals, their compensation is based on the size of their assets under management. “If you're going to be losing money, you're not going to be a good client on a whole bunch of different levels,” Ms. Cane says.
