

# How Do I Conduct Due Diligence on Exchange?

By: Exchange Capital Management

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Before partnering with Exchange or any other Registered Investment Advisor (RIA), you should make sure they are equipped to handle your assets. The great news is there are resources to help you find out who you can trust. When using the resources we will list down below, pay special attention to these five questions:

1. How long have they worked in the industry?
2. Where have they worked?
3. Are there any complaints, disclosure events, or sanctions in their file?
4. How are they compensated?
5. What degrees, licenses, or professional designations have they earned?

## Step One: Investment Advisor Public Disclosure Website

To start your search, you should head to the Investment Adviser Public Disclosure (IAPD) website. This website will provide information on Investment Advisors that are regulated by the Securities and Exchange Commission (SEC). The SEC is a federal government agency regulating large and medium-sized investment advisors (those managing assets greater than \$100MM). Small and start-up investment advisors are regulated by the state bureau where the investment advisor's principal office is located.

To investigate your potential advisor, toggle to the tab marked "individual" and enter your advisor's name and the firm they work at. Once you find the advisor and click on their name, the site will show an option to view a detailed report. In this report, you will find the advisor's employment history, professional qualifications, disciplinary actions, criminal convictions, civil

judgments, and arbitration awards. Another notable section in this report is the “other business activity” section on page six. This can indicate if the advisor has a possible conflict of interest when working with clients.

Then you’ll want to research the firm the advisor works for, click on the tab marked “firm” and enter the firm’s name. Three options will pop up: the latest Form ADV filed, Part 2 Brochures, or Part 3 Relationship Summary. Part 2 Brochures contain critical disclosure information concerning the entire firm. The form itself can be 15 pages or longer, but it’s important to read. When searching through Exchange's Part 2 Brochures, you'll be able to see:

- Where Exchange conducts business, who regulates the firm, and who the owners are (Item 4, section A)
- What services we offer (Item 4, Section B)
- Fees & compensation (Item 5, Section A)
- The kinds of clients served and minimum account size required (Item 7)
- Any disciplinary information (Item 9)
- Financial industry affiliations (Item 10)
- Disclosure of any conflicts of interest (Items 10, 11, and 14)

If you click “Part 3 Relationship Summary”, you’ll find the firm’s Client Relationship Summary (CRS). This form will inform you of pertinent details of the professional relationship, services, costs, conflicts of interest, and disciplinary history.

In both the ADV Part 2 Brochures and CRS form, you’ll find the section “other business activities.” As stated above, this section will inform you of any business activities you should be aware of.

## **Step Two: Professional Designations – It Means Something**

Designations indicate a level of expertise in a financial professional’s line of work. But there are so many designations available, it can be bewildering to sort through which one benefits you. For us at Exchange, it boils down to three simple elements that all signal intent to make investment management and financial planning a career:

1. Does the designation require a 4-year college degree?
2. Is there a rigorous multi-year preparation, testing, and work experience requirement?
3. Once the designation has been earned, is there a continuing education component?

Last but not least, ask yourself how well the designation relates to the specific job to be done. If you are looking for wealth management and financial planning, you should seek out a Certified Financial Planner (CFP) designation. Conversely, those researching an investment management team within an RIA should seek out a Chartered Financial Analyst (CFA) designation.

## **The Bottom Line**

This can seem like an overwhelming process, but it is a necessary one. Once you find an advisor you can trust, you'll feel a lot more comfortable entrusting your assets into their care. After completing these steps, make sure to check in on your advisors at least annually with these research methods to make sure your assets stay safe.

If you have any questions about how to conduct this research about one of our employees, feel free to give us a call. We operate with transparency and want you to feel as comfortable as possible before finalizing any decisions.