Selecting a Financial Advisor

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Introduction

Do you feel knowledgeable about personal finance? Do you feel confident about making financial decisions? Are you comfortable setting financial goals and developing a plan to reach those goals? Do you have time to create and follow this plan? Do you have time to manage your investments? Are you comfortable with your current debt level, and with making debt management decisions? If you answered no to any of these questions, you might consider hiring a professional financial advisor.

What do you need in a Financial Advisor?

First, decide what services are needed. Potential needs include tax preparation; bookkeeping and/or accounting; financial products and services, such as investments and insurance; legal assistance; long-term planning for retirement; or estate planning. It also could be some combination of these services. Common types of financial advisors providing these services include accountants, attorneys, bank trust officers, Certified Public Accountants, enrolled tax agents, financial planners, insurance agents and stock brokers.

Finding an Advisor

One way to find a professional service provider is by speaking with friends, family, business associates and other professionals about financial advisors with which they have worked. Discuss their experience with the advisor and what they liked and disliked about working with that person. Professional association directories are another source for locating professionals in specific locations that specialize in the areas where services are needed.

Professional associations include:

National Association of Personal Financial Advisors
http://www.napfa.org
American Institute of Certified Public Accountants
http://www.aicpa.org
Financial Planning Association (FPA)
http://www.plannersearch.org
Society of Financial Service Professionals
http://national.societyoffsp.org/
Certified Financial Planner Board of Standards
http://www.letsmakeaplan.org/

Meeting with a Potential Advisor

Schedule a meeting or phone interview after finding potential candidates. Ask about how the cost of the session will be structured. It is good to know whether you will pay by the hour or by the consultation. It is helpful to prepare a list of questions to help learn about the candidate. Ask about professional memberships, time in the profession, length of time at the firm and history of the firm. Find out what percentage of clients have similar needs as you. For example, an agricultural producer can ask if they have other clients who are farmers and ranchers, what size operations their agricultural clients have and other relevant experience. Determine if the advisor has other clients in similar age and income brackets. Question the advisor about their investment philosophy and attitude towards financial risk. If they will be part of a team of professionals advising on financial matters, ask the candidate about their experience working with other professionals. Ask what services a client can expect from them and how often they meet with their clients to discuss progress. Question candidates about the cost of services and if the advisor will be held to a fiduciary standard. Find out if they are compensated by fees for specific services, commissions on products sold or a combination of both. Ask about written contracts with the advisor. Finally, ask if there are any restrictions on terminating the advisor's services.

Find out what education and training the advisor has completed and if they have written or presented on topics of their expertise. Ask how often they attend continuing education seminars or other trainings and find out what credentials and licenses the advisor holds. The organizations that provide these credentials can also provide a record of any disciplinary action taken against the advisor. Check to ensure the advisor still holds these credentials and is in good standing with the organization before hiring them. The Securities and Exchange Commission, state securities regulators or the Certified Financial Planner Board of Standards may provide oversight of financial advisors or planners. Obtain at least three references from the advisor during the meeting. Contact these reference clients about how the advisor worked with them. It is a good idea to ask these references for other clients to speak with as well regarding their experience with the advisor.

Websites to check certifications and disciplinary action:

U.S. Securities and Exchange Commission
http://www.adviserinfo.sec.gov/IAPD/Content/IapdMain/iapd_SiteMap.aspx

Financial Industry Regulatory Authority
http://brokercheck.finra.org/
North American Securities Administrators Association
http://www.nasaa.org/
Certified Financial Planner Board of Standards
http://www.cfp.net/utility/verify-an-individual-s-cfp-certification-and-background
National Association of Insurance Commissioners
https://eapps.naic.org/cis/fileRIRSMap.do
American Bar Association
http://www.americanbar.org/groups/professional_responsibility/committees_commissions/specialization/resources/resources_for_lawyers/sources_of_certification.html

Hiring an Advisor

In most instances, it is a good idea to get a written engagement agreement after selecting a financial advisor. The client will be specified in the agreement. It will state if an individual, multiple individuals or the whole family are clients. The agreement will detail what tasks the advisor will perform. It should include a section about specific products or services the advisor will provide. A section on confidentiality can be included if a non-disclosure agreement is required. The agreement should list how the advisor will be compensated for their services. It should state if advanced payment is required and if the financial advisor will be paid hourly fees, paid through commissions on products sold or paid based on a percentage of assets managed.

Creating a Good Working Relationship

The advisor can only provide relevant services and advice if the client is open about their financial situation. Ensure that all appropriate people are included in decisions and discussions with the advisor. Everyone needs to openly and honestly reveal their financial position and any information about income and spending considerations. The advisor should carefully consider risk tolerance, which measures how much a client is comfortable losing if an investment performs poorly. Risk tolerance is also described as an emotional reaction to the potential loss of money. It is important to have realistic goals and objectives while working with the advisor. Risk tolerance will also be a part of formulating a client's goals and objectives. Regularly review progress towards these goals over time with the advisor. Look at goals after significant changes occur to determine if goals need to change. It is prudent to annually check that all financial advisors still have certifications and are not facing disciplinary actions. Monitor progress of investments and do not be afraid to ask questions. Remember: advisors are paid by and work for their client.

Final Considerations

Advisors may be selling investment products as well as services, which can at least lead to the possibility that the particular advisor may be biased or have a conflict of interest. Their products may or may not work or be the best option for the client. Multiple paths usually exist to accomplish a client's goal. The advisor should always be working for the client and helping the client work toward meeting identified goals. Clients need to be able to trust the advisor to look out for their best interests and feel confident about the guidance they deliver. It is okay to change advisors if this is not the case or if the relationship is not working out. If something does not feel right about the information you receive or if you feel suspicious about anything that you see or hear, you have every right to end the relationship. As a matter of fact, not trusting your instincts in this situation can be costly in more ways than one.

Additional Resources:

How to Find Your Financial Advisor:
https://www.napfa.org/financial-planning/how-to-find-an-advisor
Checklist for Interviewing a Financial Advisor:
https://legacy.napfa.org/UserFiles/File/AdvisorComparisonToolFinal-fillable.pdf
Ten Questions to Ask Your Financial Advisor:
http://www.letsmakeaplan.org/blog/view/lets-make-a-plan-blogs/ten-questions-to-ask-your-cfp-professional
Professional Designations and Their Requirements:
http://www.finra.org/investors/professional-designations
Know Your Financial Adviser:
https://www.consumerfinance.gov/about-us/blog/know-your-financial-adviser/
Definition of Fiduciary:
https://www.napfa.org/financial-planning/fiduciary-101

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