

Choosing a Financial Advisor

"I'm not a millionaire — I don't need a financial advisor." Wrong! Whether you have \$1,000 in the bank or \$100,000, almost anyone can benefit from sound financial advice. But how do you find a capable and trustworthy financial advisor to meet your needs?

The very first step is to determine what those needs or goals are — buying your first home, saving for a child's college education, a comfortable and secure retirement, etc. A personal financial advisor, also known as a financial planner or a financial consultant, will use knowledge of investments, tax laws, and even insurance, in order to recommend financial options that might best fit your short-term and long-term goals. Financial planners deal with such issues as retirement and estate planning, funding for college, and also general investment options. And while some financial advisors are able to offer advice on a wide array of topics, others specialize in specific areas.

It is true that family and friends can be good sources for information on financial advisors, and it's okay to ask around. But you shouldn't stop there — you have to do your due diligence. You can do research through The National Association of Personal Financial Advisors (napfa.org) to find fee-only financial planners. The Society of Service Professionals (financialpro.org) can help locate a commission-based financial advisor in your geographic area. Also, the Certified Financial Planners Board of Standards (cfp.net) has a database of certified financial planners, as well as a tool to help you find an individual in your area most qualified to help you based on your assets, any specialized needs and your preferred advisor compensation method.

In your search, you will see many professional designations following the names of financial planning professionals. But be careful, some of these may be awarded following a relatively brief period of training. In general, the "CFP" (Certified Financial Planner) credential is the gold standard and those who have earned it have met rigorous education, experience, and ethics requirements.

Next, it's time to interview a selection of planners to find one who will meet your needs. Many will offer a free initial consultation. Some may conduct a lecture or seminar to address financial topics and introduce their services. Ask what credentials they hold and how they were earned. Ask for work experience, specialties, how they get paid, and references. As with any "hiring" process, you want to interview many before settling on one.

Financial advisors are paid in different ways, and this may weigh heavily in your decision. They can be paid by commission, fees, a percentage of assets under management (AUM), or some combination of these methods. There are pros and cons to each. For instance, there is the possibility of a conflict of interest with an advisor on commission as there is an incentive to invest in funds which pay a higher commission. On the other hand, an advisor who bills you a fee, either hourly or a retainer, increases your out-of-pocket costs. It is not a rule that one type will do a better job for you than another — there are very principled and competent advisors in both camps. It is up to you to do your homework.

Once you have chosen and consulted with your financial advisor a comprehensive financial plan is then developed that identifies problem areas, offers recommendations for improvement, and selects appropriate investments that are compatible with your goals. Usually you will meet with your advisor at least once a year to update them on you and your family's current state of affairs, as well as to determine if any changes should be made due to changing economic circumstances. Smart financial planning should be an evolving process — just as life itself.