How to Pick the Right Advisor

So suppose you decide you want to invest, but you feel you can't do it on your own. Where do you go for some help? Helpers comes in a variety of names, experience, credentials and backgrounds. I am reminded of an old George Carlin joke (paraphrased) "Somewhere there is the world's worst financial advisor. The scary thing is that someone has an appointment with them tomorrow."

1. You could check the Yellow Pages. No. That's likely to direct you to a firm that has an advertising budget. Not much help.
2. You could google "financial advisor" online. Given the proliferation of fraud and misinformation online today, this is not a good idea either.
3. You could ask a friend, or other trusted advisor, like a CPA. Referrals are always good.
4. You could check with a professional organization like the Investment Management Consultant's Association (IMCA) or Financial Planners Association (FPA).

We'll give you some resources later.

No matter how you find a name you still have a lot of work to do. For instance, what's in a name? Here is a over-simplified description of the types of salespeople that advise clients on investing assets:

Stockbroker: Recommends stocks, bonds and other securities to clients and gets paid commissions on those the clients select.

Investment Advisor: Recommends investments usually in a non-discretionary arrangement with clients, and gets paid a fee for the recommendations accepted by clients. There are sub-sets of investment advisors:

> **RIA:** A Registered Investment Advisor is registered at the State or Federal level.
>
> **Investment Manager:** Manages client portfolios, making the buy and sell decisions with discretion, getting a fee based on assets under management.
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> **Investment Consultant:** Usually an investment advisor that employs the 5-step consultative sale to recommend investment programs to clients.
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> **IAR:** An Investment Advisor Representative is usually a State-registered sales person or other employee of an investment advisor. States charge a fee to register as an IAR.

Wealth Manager: An investment advisor that concentrates on individuals rather than institutions.

Pension Consultant: An investment advisor that specialized in employee benefit plans.

Financial Planner: An investment advisor that considers tax, estate, life insurance and similar issues to prepare a financial roadmap for clients.

Banker/Private Banker: Usually like wealth managers, but employed by banks.

Insurance Agent: Many insurance agents are licensed to sell mutual funds, usually for IRA and 401(k) business.

CPA: Certified Public Accounts are increasingly getting more formally involved in the investment advice portion of the business.

Then there are license and registration issues: **Registered Representatives** are persons licensed by FINRA (Financial Investor Regulatory Agency) to sell securities. There are various licenses:

Series 6 allows sales of mutual funds.

Series 7 is the general securities license held by most brokers which allows the sales of most securities, including stocks and bonds.

Series 24 is a license required to be a securities principal, such as a managing director or president of a brokerage firm.

Series 27 is the license to be a FINOP (Financial Operations Professional) which is required in every brokerage firm to account for the flow of money.

Series 63 is a general securities license which allows some limited sales of securities.

Series 65 is the investment advisory license required of people not licensed as Series 7 brokers.

Series 66 is the investment advisory license required of Series 7 licensed brokers.

According to the Department of Labor, a financial advisor should be able to provide the following services.

Duties of a Financial Advisor:

1. Assist in defining realistic goals.
2. Establish an asset allocation strategy.
3. Evaluate the tradeoffs between investment strategies.
4. Evaluate candidates for investment.
5. Analyze and interpret performance.
6. Make recommendations.
7. Provide research, education, reports and analysis of topical issues.
8. Negotiate fees and commissions where possible.
9. Assist in meeting new legal or fiduciary requirements.
10. Facilitate communications.

There Are Several Factors to Evaluate Regarding Potential Conflicts of Interest:

Financial advisors as brokers

Financial advisors as managers

Consultants selling services to managers—what kinds of services, and how much?

Receiving payments from mutual funds like 12-b-1 fees

Other Issues You Should Consider in Hiring a Consultant Include:

1) Is the person certified by a recognized body such as the Investment Management Consultant's Association (IMCA)?

2) Do they provide other services which may be problematic or potentially conflicting, like an insurance agent, commissioned stockbroker of CPA?

3) What were qualifications, education, background and credentials?

4) What professional standards does the firm require?

5) Can an advisor show a track record of its clients,based on selections made over a 3-5 year period?

6) What recommendations about firing funds and managers, and selling securities have been made?

7) Where does the data and research come from?

8) ***Who is responsible for its accuracy?***

9) What kind of analysis can they do?

10) Are comparisons valid by style?

11) Can they explain in a clear concise manner what they are doing and what investments are like in general?

12) Have they had any litigation, compliance or regulatory problems? You can verify this with the SEC.

No matter what, you should always ***Require a higher level of experience, education and training.***

Picking the "Right" Advisor

An adviser should be able to provide you with resources such as:

Explanations of investment opportunities and common investment mistakes.

Guidance in understanding and evaluating risk.

An asset allocation plan that can help you meet your financial goals.

A personalized strategy for making investment decisions.

Advice on specific investments.

Analysis of how well your investments are helping you meet your financial goals.

Help in rebalancing your portfolio as your financial situation changes or your goals get closer.

The role of an advisor should be to help you increase your confidence, build your investment skills, and keep you on track toward your financial goals.

Evaluating Advisers:

Finding the right adviser involves asking the right questions. You may ask for recommendations from family, friends, and other professionals you work with and interview a number of the people whose names you receive.

As you consider potential advisers, don't hesitate to ask:

How long they've been advisers?

How many clients similar to you they work with?

How much money they handle?

Their clients' average portfolio value?

Their fee structure and any other account expenses?

Their approach to financial planning?

Their process for identifying the investment managers they recommend?

Above all, your financial advisor should inspire a feeling of confidence and trust on your part.

In light of the new financial reforms, Advisors have a duty of full disclosure and that includes how and how much they get paid. You should ask for (and receive before you sign anything) their disclosure brochure--the ADV, Part II. Financial advisers who manage more than $100 million in assets are required to file a Form ADV with the Securities and Exchange Commission (SEC). Under $100 Million, they have to provide the same information to their respective state of residence. Get this document. The Form ADV includes information about their operations, discloses any problems with regulators (such as the SEC and FINRA) or clients, and describes their services, fees, and their approach to investing. The ADV is public record and is also available on the SEC website, www.sec.gov.

You should evaluate a financial adviser's qualifications the same way you would any professional you were considering hiring. Among the most important qualifications are:

Experience: Look for 5 years or more.

Reputation: Referrals from people you trust are important. Plus, you can learn a lot by talking to a potential adviser's references.

Expertise: Financial advisers have different areas of expertise, so you should consider the type of advice you need before making your choice.

Compatibility: Regardless of qualifications, your financial adviser has to be someone with whom you feel comfortable and can build a trusting relationship.

Ethics:

Ethics are ethics. There is no compromise. If you are dealing with a financial advisor, there are fiduciary principles which MUST be adhered to A financial advisor's role as a fiduciary is, "The Ethical Treatment of Somebody Else's Money©". The requirements are simple:

- Full disclosure of where the client's fee goes
- Full disclosure of how you get paid
- No conflicts of interest
- Full compliance with all legal and regulatory requirements
- Unbiased investment recommendations
- The client always comes first

If you have a Helper, make sure these fundamental ethical principles are adhered to.

The next step in a sound investment process is asset allocation. Have a look at our asset allocation course for more information.

Lastly, check Money Culture's Hall of Shame to make sure they are not on that list.