Seven Things to Know Before Hiring a Financial Planner

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What are the most important things to look for when hiring a new financial advisor or reviewing your current one? Are they unbiased? Do they have the ability to meet your current and future needs? What is their specialization? From compensation structures to disciplinary history, these seven questions should be in your back pocket when interviewing your next advisor.

KEY WORDS: Financial services; financial advisor; financial planner; advisor compensation; fiduciary; comprehensive financial planning; informed consumer.

You have made many good decisions in your life, such as doing well in school, graduating from a prestigious university, and having a great job right after graduation. The countless hours of study and hard work are starting to pay off.

As someone who has earned the white coat, you are excited to begin the wealth-building journey. One question remains: How are you going to build this wealth and how do you make this wealth last when you take off the white coat?

You may have started paying back your student loans, saving for retirement, putting away a rainy-day fund, and started to truly build up wealth along the way. You have a feeling that you need some help with your finances, but you don't want to get bad advice. How do you find someone whom you can work with who can help you make good financial decisions?

Although no one has the "right answer" to finding the perfect advisor, including several questions in your interview of any potential financial advisor or planner can help you make an informed decision. These are just a few of the questions you should consider when hiring a financial planner; consider them as a starting point.

How Are You Compensated for the Advice That You Give Me?

Potential conflicts of interest or conflicting advice may emerge, depending on the type of financial advisor or financial planner you work with. Some financial advisors work under a salary and bonus plan; others receive compensation on professional fees collected directly from the clients' assets under management or financial planning fees. Some financial advisors are compensated based on commissions collected from financial products sold to their clients. Some advisors take multiple forms of compensation.

Although compensation does not affect the quality of advice you can expect from a financial advisor, you should be aware of how your advice is purchased and if the method of purchase affects the advice they give.

The example below illustrates why this is important.

Example:

1. ABC Advisor charges 1% a year on total assets.
2. XYZ Advisor charges 3.75% upfront for products and services when rendered.
3. ABC Advisor is not incentivized to make trades or move assets around, as they are always collecting 1%.
4. XYZ Advisor is incentivized to make trades or move assets around, as they are collecting compensation when they change assets held by the client.
5. Although trading may be appropriate in both cases, XYZ Advisor may have a conflict of interest when they trade, as moving assets around may be costly for the client.

Does Your Firm Require You to Meet Any Production or Asset-Gathering Targets or Proprietary Product Minimum Requirements?

You and your financial goals should be the priority in every meeting. There are times when a third figure, the sales manager, hovers in the background casting pressure on the financial advisor. Some firms require their financial advisors to bring a minimum amount of dollars into the

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firm or require their advisor to sell a minimum amount of financial products.

Example:

1. ABC Advisor works at ABC Investments.
2. ABC Investments requires net new assets (new money from clients) of $1,000,000 annually from ABC Advisor.
3. ABC Advisor has 100 current clients and 100 prospective clients.
4. ABC Advisor needs to find money from current or prospective clients or is sanctioned or removed from ABC Investments.

Additionally, some financial advisors represent firms that have "proprietary products." Although not bad by nature and arguably some of the best products available, the requirement by the firm for the financial advisor to offer a minimum amount of these products could produce friction.

Example:

1. Clients work with ABC Financial.
2. ABC Financial sells ABC Whole Life Insurance.
3. ABC Financial Advisor is required to sell $10,000 in premiums worth of ABC Whole Life Insurance.
4. ABC Financial Advisor may offer ABC Whole Life Insurance to the client.
5. ABC Whole Life may be the best whole life product for the client, but the firm is requiring $10,000 of premiums for ABC Financial Advisor and other products may have been more suitable.

What Licenses, Registrations, and/or Designations Do You Hold?

The best way to think of financial services licenses or registrations is the ability to legally sell you financial products or services.

Designations represent additional education about the appropriate methods, products, and services that the sponsoring designation-provider believes appropriate for client interactions. Do your research on the details behind designations[1] and consider what financial services you want to purchase from a financial advisor.

Example:

1. ABC Advisor has a Series 6 and 63 license and a CFP®.
2. XYZ Advisor has a Series 7 and 66 license.
3. DEF Advisor has a life and health insurance license.
4. ABC is limited in their products based on the ability to sell (broker) assets for a commission and that commission is limited to what is covered in the Series 6 exam (mostly mutual fund and fixed assets such as variable insurances). Because the advisor has the CFP, they must follow the CFP guidelines and must disclose any conflicts of interest.
5. XYZ Advisor is not limited by any financial products or services and may sell (broker) assets for a commission or assess advisory fees (assets under management fee) on any assets covered by the Series 7 exam (most securities).
6. DEF Advisor is limited to insurance-based solutions such as annuities, life insurance, disability insurance, etc.

Are You Acting as a Fiduciary When You Are Working with Me in All My Transactions with You?

Popularized by comedian and provocateur John Oliver's episode on Retirement Plans,[2] the question of the fiduciary standard is an important topic. A fiduciary[3] is a legal term that gives the client legal recourse to go after a financial advisor for perceived breaches in fiduciary duty. Although there are many brokers who are great financial advisors and some fiduciaries who are terrible financial advisors, knowing what legal recourse you have against your financial advisor is important.

Example:

1. John B is an ABC Financial representative who can manage money for a fee as well as sell financial products independently.
2. ABC client wants to set up a retirement account for $100,000.
3. John B can either manage the money for a percentage of the $100,000 charged annually or John B can directly sell $100,000 worth of financial products and make an upfront percentage in commissions.
4. Under the annual percentage, John B must act as a fiduciary.
5. Under the sale of financial products for a commission, John B must make sure that the financial products sold were reasonably sold and suitable for the client.[4]

Do You Have a Full Team of Financial, Tax, and Legal Experts and Are You Able to Work with My Existing Team of Experts?

Based on the CFP Board's updated Code of Ethics and Standards of Conduct,[5] the definition of financial planning is: "a collaborative process that helps maximize a Client's potential for meeting life goals through Financial Advice that integrates relevant elements of the Client's personal and financial circumstances."

Additional questions:

- "Do you have a team of financial, legal, and tax experts that you actively work with? Explain your relationship with them."

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- "Are you experienced and proficient enough to work with my legal and tax team if I have them reach out to you?"
- "Can you vet out my existing team to test their level of competency?"

Can You Review Your U4 or Any Other Relevant Disciplinary History with Me?

If you are working with a financial advisor, you can ask your advisor to pull up their U4 online at https://brokercheck.finra.org or https://adviserinfo.sec.gov. This resource allows you to quickly search for any complaints, potential red flags, and minor infractions when dealing with an investment advisor.

Note that major infractions often lead to suspended licenses or registrations. So, make sure all information is current and available to verify online.

Do You Provide *Comprehensive* Financial Planning, or Do You Provide Elements of Comprehensive Financial Planning?

When it comes to financial planning, elements of comprehensive financial planning are found in insurance planning, retirement planning, tax planning, legal planning... etc. However, comprehensive financial planning models across all these areas and goes beyond the modeling into cash flow management, asset tracking, and multiple goal setting and tracking.

Example 1:

1. Bob G works at ABC Planning as a financial planner.
2. ABC Planning specifically works on retirement and investment accounts and uses internal modeling that shows what the cost of retirement looks like as well as asset growth for other goals such as education funding.
3. Bob G may say he can create a financial plan for a client.
4. ABC Planning Client receives a financial plan from Bob G that illustrates retirement and education funding.
5. ABC Planning Client has received elements of a comprehensive financial plan in the areas of retirement planning and education planning.

Example 2:

1. Alex F works at XYZ Planning as a financial planner.
2. XYZ Planning offers planning that goes into cash flow modeling, retirement planning, insurance analysis, legal analysis, tax analysis, etc.
3. Alex F may say she can create a financial plan for a client.
4. XYZ Planning Client receives a financial plan from Alex F that goes through any and all financial gaps that the client has at the time of plan delivery.
5. XYZ Planning Client has received a comprehensive financial plan.

CONCLUSION

When you ask these questions as an informed consumer, you should be signaling to the advisor whom you are interviewing that you want to work with that firm but need to protect yourself and your financial future. If there is pushback or confusion in the answers you receive, remember that unless the professional can explain things in a way you can understand and accept, it is better to keep asking questions or to move on. As with health, there is no one way to remain healthy; with wealth, there is no one way to build wealth and keep it.

You are about to make one of the most important decisions of your life and you should do so with clarity rather than according to other outside considerations such as familial obligations, assertions of competence from relations, or any other incentives outside of good and clear advice.

Once you have identified someone who is able to answer these questions, periodically check to see if their business model has fundamentally changed and continue to question whether they are maintaining your finances in accordance with your expectations.

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