



How to Choose a Financial Advisor

10 Questions to Ask When Evaluating Financial Advisors

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From Chapter 86 of *The Truth About Money* — How to Find a Planner:

Once you identify a few planners to talk to, here are 10 questions you should ask:

1. How many years have they been in business, and how did they get started?

If the planners you interview are former stockbrokers, their emphasis likely will be on investment management, whereas if they were insurance agents, they probably will emphasize insurance products.

2. What kind of people do they work with most often?

Do not tell the planner about yourself right away. Instead, ask them to describe their typical client. If they describe you, it could be a good match. If they describe someone totally different, you could be out of place.

As part of this question, ask how much money their typical clients invest. If you have \$50,000 to invest, you don't want a planner who works primarily with millionaires, or you'll be ignored. Likewise, if you have \$1 million and the planner works mostly

with assets of fifty grand, the planner may not have the expertise you require. Ideally, you want a planner who works extensively with people like you.

3. What is the ratio of support staff to professional staff?

Too few and the advisor will never get any work done. Too many means his office is not operating well, and you're paying for the firm's big expenses. Here's a good test: If the planner does not answer his own phone, he or his associates should return phone calls within one business day.

4. What is the planner's reputation in the field and in the local community?

Planners who have roots and who are well-known have reputations to protect and therefore tend to be more careful than the planner who just blew into town.

5. When setting your appointment, go to the planner's office instead of inviting him to your home.

It takes more effort on your part, but it will allow you to inspect his office. How often does the phone ring before it's answered? Is the office neat and organized? Is there a bustle

of activity? Don't be taken in by offices that are too opulent, though. Remember: Clients pay the rent, not the owners! If there's a huge pile of papers, files, and documents all over the place, remember too that one day, your file will be somewhere in that mess!

6. Do you understand what they tell you?

Here's the easy way to know: If you understand what they're telling you, you should be able to repeat to others what they've said. If you can't, you might be getting bamboozled.

7. Does the planner have a clean record?

Don't be afraid to ask this question and, if you like, follow it up with an online visit to FINRA's regulatory site. If your planner has a securities license, see if there have been any complaints or regulatory incidents by visiting FINRA's BrokerCheck® site, www.finra.org/Investors/ToolsCalculators/BrokerCheck/index.htm. If the planner has an insurance license, call your state insurance commission, too. Check with the SEC or State Securities Regulators to see if your planner is a Registered Investment Advisor. ►

All planners are required to provide clients with a copy of the planner's Form ADV Part II, which is the disclosure statement they filed with the SEC or the State. It will disclose everything you need to know about their background, methodology, compensation, and other important data.

8. Ask about the planner's investment methods.

What types of investments does he normally work with? Are they high risk or low risk? Is your money accessible after it is invested or are there restrictions? Who makes decisions to buy or sell investments — you or the planner? Can the planner execute transactions without your prior approval? Make sure you're comfortable with all the answers.

9. Get referrals.

This isn't a bad idea, but it's not that great, either. After all, no planner will give you a negative source. Still, you can use referrals to verify basic facts. Do not ask the referrals how their investments are performing. (It's a bad basis from which to make a decision and it's rude, too.) Instead, ask what it's like to work with the planner. Do they return phone calls timely? Are mistakes often made or difficult to get corrected? How quickly and effectively are questions answered? How often do you hear from the planner? Why do they contact you — just to sell you something or with bona fide news?

Questions about style can tell you a lot about substance.

10. Must you sign a contract?

What does it obligate you to do? Many financial planners do use contracts, but never sign one that doesn't let you cancel in 30 days or less. For planning work, never pay more than 50% in advance, with the balance payable upon completion of the work. When paying asset management fees, never pay for more than one year in advance. And always pay only for what you are getting, and make sure you get what you pay for.

Financial Advisor Fees

How much does it cost to work with the advisor, and how is the advisor compensated?

No matter who your planner is or what type of organization he works for, all planners are compensated in one of four ways: commission-only, fee-only, fee-plus-commission and fee offset. Commission-only planners make money when you buy investments. Fee-only planners charge an hourly rate or flat fee, often a percentage of assets under management. Fee-plus-commission planners are compensated both ways. Fee offset planners charge a client to develop a plan, but reduce the cost of the plan if a client buys those products from the planner or agrees to pay asset management fees.

A good planner will talk about your family, job, debt and tax matters and analyze this information before giving you investment recommendations. Planners who urge you to buy their financial products because they earn a commission might have a conflict-of-interest.

You also need to ask your advisor the total costs you will incur working with him. That's because in addition to your advisor's fee, you also have to pay for the funds your advisor has recommended. These fees come in two parts: fixed expenses and variable expenses. To learn more about these costs, visit RicEdelman.com.

Ric Edelman

is Chairman and CEO of Edelman Financial Services, which manages \$4 billion in investments for clients nationwide. He is rated the #1 Independent Financial Advisor in the country in a current ranking by *Barron's*.

For more of Ric's advice on investing and personal finance listen to *The Ric Edelman Show*, broadcast weekly on radio stations nationwide, or read his current bestseller, *Rescue Your Money*.

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Ric Edelman is Chairman and CEO of Edelman Financial Services LLC. Ric is an Investment Advisor Representative and offers advisory services through EFS, an SEC-registered investment advisor. He is also a Registered Principal of and offers securities through SMH Capital Inc., an independent broker/dealer, member FINRA/SIPC. *Barron's* ranking "Top 100 Independent Financial Advisors" (Aug. 31, 2009) based on assets under management, revenues the advisors generate for their firms, and the quality of their practices.