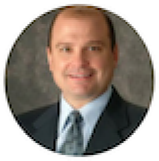
Five Questions To Ask Yourself When Hiring A Financial Advisor



Mark Avallone, CONTRIBUTOR
I help people on their path to Financial Freedom. FULL BIO

It's easy to find tips on how to pick a financial advisor, but it's harder to know what is best for you. We all see the endless ads from the legacy brokerage firms, banks looking to expand their 'share of wallet,' low-cost discount shops, and robo-advisors. Further adding to the confusion is that the industry still allows insurance salespeople, who may not be securities licensed, to sell products that often look like financial investments.

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This decision about how to have your money managed is deeply personal, and there is no one correct way for everyone. If you choose to hire an advisor, here are some important questions to ask yourself to help you feel confident in your decision.

Do I trust this person? We don't usually pick our personal physicians based on a slogan or a television commercial, and we don't rank 'top doctors' based on who performs the most surgeries. Yet many of the larger financial firms, whose ads are commonplace, use these metrics to differentiate themselves. However, at their core, these large banks and brokerages are often publicly traded organizations whose advisors have sales goals, sales incentives, and sales managers—whose primary compensation is driven by volume (think Wells Fargo scandal). In that profit-driven world, sales and quarterly production are key drivers. If this doesn't appeal to you, then instead ask your friends who they are using or research local, independent advisors who live and work in your community. Carefully check their backgrounds, meet with several practitioners, and ask a lot of questions before making a decision. Be sure to confirm how the advisor is compensated and ask for references. These steps should lead to a greater feeling of trust, which is integral to the success of the relationship.

Is the advisor asking the right questions and is he or she a good listener? As with any successful relationship, good listening is critical—especially when it comes to personal discussions around money and family. It is important to feel comfortable that your advisor is not only knowledgeable, but also empathic to your unique situation. Also imperative is that they understand not only your goals, but also your concerns and fears around investing. For example, if you tell an advisor that you have one million dollars to invest and that you're a high-risk investor, the advisor should go deeper and ask how you will feel if you lose $200,000 or more during a bear market? This discussion will help the advisor gain a greater understanding of your true risk tolerance. Asking deeper questions and carefully listening to the answers puts the two of you on the same page and may help avoid emotional reactions or disappointments later.

What do the designations and letters after an advisor's name mean? Not all financial designations are created equally. For example, some, like the Chartered Financial Analyst (CFA) designation and the Certified Financial Planner®(CFP) certifications, take several years to complete and include a proctored, multi-hour exam. Others are self-study programs with a final exam that can be taken online at home. As a result, you may see a lot of initials after a financial advisor's name, but they might not mean much. It's best to understand what each designation is, who sponsors it, and how it was earned.

What sort of education and experience does the advisor have? Perhaps surprisingly, there is no academic prerequisite needed to pass a Series 7 licensing exam (the test that FINRA requires in order to sell securities) or to call oneself a 'financial advisor'.' This is why it is important to ask about education and relevant work history. For example, an advisor who was a banker may have experience with real estate or the challenges business owners face; someone who served as a trust officer may be well versed in inter-generational wealth transfer; and an advisor who previously trained as a family therapist may understand family dynamics and the role of money in relationships. Experience in these related areas may be valuable if you want your advisor to take a comprehensive approach and if you are looking for integrated advice. The bottom line is education, both from academia and professional experience, matters.

How does the advisor get paid? The way we compensate advisors is becoming a hot button. The so called 'fiduciary standard' offers some protection for consumers who prefer a level fee-compensation structure and a move away from a commission-based brokerage relationship. Legally, a fiduciary must adhere to a higher standard of care than a traditional broker. Level fees help the consumer know that the advisor is not biased toward a given product or service based on how much they get paid. For a variety of reasons the industry is moving more to this important fee-based standard—but keep in mind it is just one of several important factors to consider.

Working with a financial advisor is a deeply personal relationship. There should be a high level of trust, a strong ability to communicate, an understanding of the advisor's knowledge and capabilities, and an understanding of how he or she gets paid. When you are comfortable with all these variables, chances are you will get more out of the relationship. So ask the hard questions in the beginning, and you will be less likely to be disappointed later.