5 QUESTIONS YOU SHOULD ASK BEFORE HIRING A FINANCIAL ADVISOR

Financial advisors guide their clients in a variety of ways including retirement planning, wealth management and offering insight and advice on a range of topics. This can include basic budgeting, setting short-term and long-term financial goals, reviewing potential insurance needs and comprehensive financial planning. Here are some questions you should ask when selecting a financial advisor to help ensure your choice best meets your specific needs.

1. Why do I need a financial advisor?

First, ask yourself what type of help you are looking for. Maybe you are in the middle years of your career, have a family and are looking to plan for college funding for your children. Maybe you want to purchase a vacation home in the near future. If you are in the later stages of your career, you may want some help determining how far-off your retirement is. Are you looking for investment help with your IRA, old 401(k) or a brokerage account, or did you just inherit some money from a loved one and want to ensure it is invested wisely?

A successful relationship with a financial advisor can be long-lasting, and your financial advisor will be involved in some of the most personal financial decisions you make over the years. You need to be able to trust their advice, and while ultimately your financial decisions will be yours to make, you want to be able to make those decisions with the best information available. You will want to work with someone who takes your questions, concerns and suggestions seriously and who will provide you with honest feedback and guidance.

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2. What are the advisor’s qualifications?

Talk with the financial advisor about their experience and qualifications. Does the advisor have expertise in a certain area that could benefit your unique situation? Does the advisor work with other clients who are in a similar position as yourself? Find out what other resources the advisor has access to that can add to the value of the relationship. If the financial advisor has professional designations such as the CFP® or CRPC®, discuss how that knowledge adds value to the services the advisor offers. Inquire if the financial advisor you are considering is associated with a registered investment advisor (RIA) or a broker-dealer. There are several distinctions between the two, and a main difference is RIAs are required to act in a fiduciary capacity, which means they must act in their client’s best interests.

<u>Why ask?</u>

The advisor's credentials can indicate their primary motives. Licenses like the **Series 6** or **Series 7** focus on selling products, while certifications like **CFP®** or **CFA®** focus on financial planning.

The CFP® and CFA® designations are highly regulated by their respective boards and will demonstrate the individual's comprehensive understanding in multiple areas of financial planning. Holding a Series 6 or 7 license allows the licensee to act as a representative in the sales of various investment products.

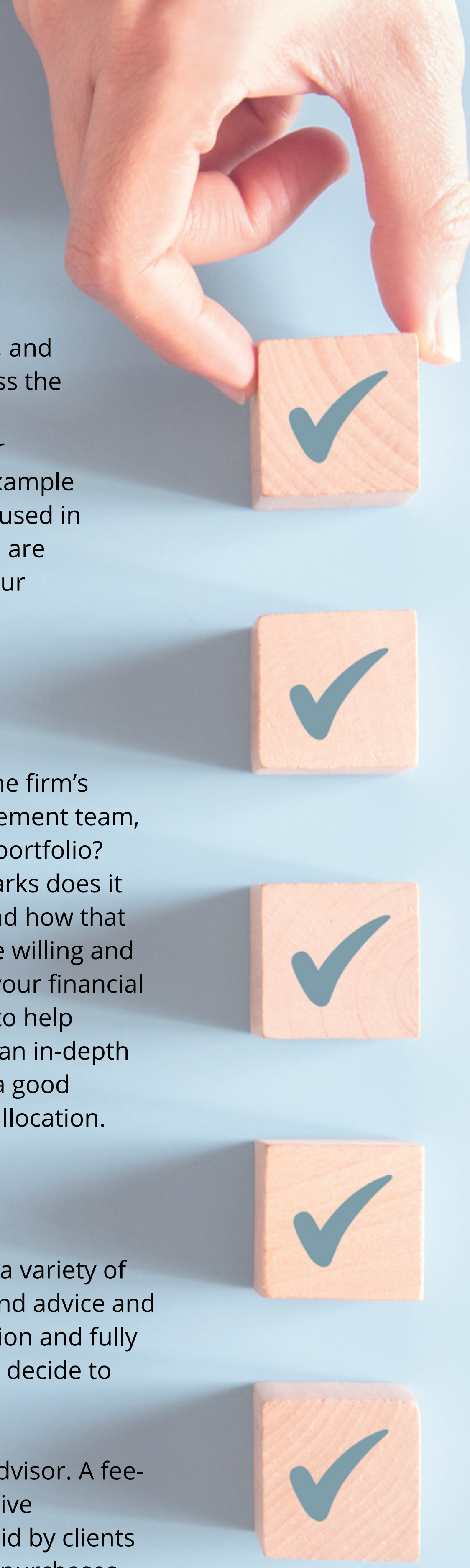
<u>How can you tell if the credentials are legitimate?</u>

Accredited advisors will be featured on the accrediting organizations website. You can check here:

BrokerCheck® by FINRA

CFA Institute

CFP®



3. What services does the financial advisor offer?

Comprehensive Financial Planning

Does the financial advisor offer comprehensive financial planning, and what does that entail? If you are looking for a financial plan, discuss the steps in the financial planning process, and be honest about your situation and goals. Ask about the technology the financial advisor leverages and why he or she chose that software. Ask to see an example of a financial plan deliverable and inquire about the assumptions used in the plan like inflation, life expectancy and how investment returns are modeled. Inquire about how the relationship will proceed after your initial financial plan is delivered and what the next steps will be to successfully implement the plan in the coming years.

Asset Management

If you are interested in asset management, ask questions about the firm's investment philosophy. Does the firm have an investment management team, or will the financial advisor be choosing the investments for your portfolio? What investment models does the firm offer, and which benchmarks does it use to measure success? Discuss your investment time horizon and how that could impact your investment goals and the degree of risk you are willing and able to take to achieve those goals. Before investing your assets, your financial advisor should have you complete a risk tolerance questionnaire to help determine how your assets should be allocated. You should have an in-depth conversation about the results of the questionnaire, so you have a good understanding of why your assets will be invested in a particular allocation.

4. How is the advisor compensated?

Financial advisors are compensated in a number of ways and use a variety of fee structures. This can include flat and hourly fees for planning and advice and asset management fees. It is important to have an honest discussion and fully understand how your financial advisor will be compensated if you decide to move forward with the relationship.

Know the difference between a fee-only and fee-based financial advisor. A fee-only advisor is paid directly by his or her clients and does not receive commissions for products sold. A fee-based financial advisor is paid by clients but can also receive commissions for financial products the client purchases. Fee-only financial advisors act as fiduciaries. Fee-based financial advisors are required only to recommend products that are suitable for their clients.

You also want to be clear on what your all-in costs will be when working with a financial advisor. You should understand the difference between the fees you will be charged for assets under management and fees you will incur for holding certain assets. For example, a financial advisor may charge you a 1% annual fee to manage your assets, and if your portfolio consists of exchange traded funds (ETFs) or mutual funds, the firms that manage those funds will also charge management fees. These fees are deducted by the fund company, and you usually will not see them on statements, because they are handled in-house. You pay your financial advisor to manage your portfolio, and fund companies charge fees as part of the normal operations and maintenance of the funds they manage.

5. How will the relationship be structured?

Ask the financial advisor how often he or she meets with clients. Is it quarterly? Semi-annually? Annually? How accessible will the advisor be if you have questions? Who will be your main point of contact? You want to be clear with the financial advisor about your expectations and goals for the relationship.

It is also a good idea to have the financial advisor you are considering explain some financial concepts to you. This will not only help you gauge their knowledge, but it will also demonstrate if they are willing and able to break down important information in a way you can follow and understand.

Think you're ready to start a financial plan? Contact us today to setup your complimentary consultation and see what we can do for you.

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Make sure to take this guide with you when you are interviewing financial advisors.