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FINANCIAL

# GUIDE to Choosing & Evaluating a Financial Planner

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# Guide to Choosing & Evaluating a Financial Planner

The world of financial services can be a jungle. Every day you are bombarded with ads and promotions for a wide array of service providers.

Unfortunately, choosing a financial professional to work with leaves many with the same feeling as buying a car.

This decision, however, is significantly more important that what car to buy. Choosing the right planner and advisor can be one of the most critical decisions of your financial life. The key to reaching any destination often lies in the quality of the map and the directions.

This guide is designed to provide some clarity to the industry and help in providing some fundamental questions in comparing and contrasting planners and advisors through the selection process.

# Qualifications

All financial professionals are not the same and designations are not an assurance of quality.

The first step to differentiating one professional from another is their licensing. There are different levels of licenses throughout the industry.

**The four main levels are as follows:**

### Insurance

LEVEL 1

Most professional planners and advisors have a license to sell insurance. However, some ONLY have a license to sell insurance.

This means that they are unable to offer stocks, mutual funds, ETFs, bonds or anything that has to do with the publicly traded markets. These advisors will focus on annuities and life insurance as the sole aspect of your strategy.

They will claim that you are in the market through the sub-accounts and funds within the annuity and life insurance policy. This is not completely accurate.

## Series 6

LEVEL 2

Series 6 is a license entitling the holder to buy and sell mutual funds, variable annuities, and some insurance products on behalf of clients.

To receive a Series 6 license, one must pass a multiple-choice examination, consisting of 50 items, covering each of these investment vehicles, as well as the securities and tax regulations involved with them.

Candidates have 90 minutes to complete the exam. The license and examination are administered by FINRA.

According to FINRA,

**58%**

of testers pass the exam.

## Series 7

LEVEL 3

Series 7 Is the exam, consisting of 125 items, that one must pass to become a registered representative with FINRA, a designation that authorizes one to trade for the brokerage or other firm for which one works.

It authorizes one to sell ANY security except commodity futures contracts. Candidates have 225 minutes to complete the exam.

## Series 65

LEVEL 4

The Series 65 license qualifies individuals to provide investing and general financial advice to clients. Passing the Series 65 exam qualifies individuals as Investment Advisor Representatives (IARs). The Series 65 exam is referred to as the NASAA Investment Advisers Law Examination put out by the North American Securities Administrators Association (NASAA) and is administered by FINRA.

The exam consists of 130 scored questions. Candidates have 180 minutes to complete the exam. For a candidate to pass the Series 65 exam, he/she must correctly answer at least 94 of the 130 scored questions.

As in every profession, there is theory and practice.

Resumes and bios are not always accurate and rarely verified. Credentials and experience can be embellished, but once you scratch the surface, real experience shines through.

Asking for stories is a helpful way to determine real world experience. As with any job interview, open ended questions work best.

### Here are five recommended questions:

1. Tell me three client retirement stories that have affected you the most.
2. What are the largest mistakes you've seen clients make in retirement, tell me their stories.
3. In your opinion, what is the most critical component to a successful retirement plan?
4. What qualities makes you a good planner?
5. Tell me about mistakes have you make as an advisor and what have you learned from them.

# Trust

Working with a planner and advisor is a long-term relationship. Trust is paramount.

Your advisor holds your financial future in their hands. Not only do you need to trust them with your money but you need to trust them with your personal situation. Anything that might affect your finances in the future should be shared with your advisor.

This includes, but is not limited to, concerns about your children's fiscal responsibility, your health, your negative spending habits, your anxiety surrounding your finances, your tax situation and your outside accounts.

If you cannot have uncomfortable conversations with your advisor, you should not be working with them.

It helps to think of your advisor as a financial councilor. He or she carries a lot of responsibility for your future, and it is critical they have the necessary knowledge to ensure its success.

# Affiliation

There are two aspects of advisor affiliation, **captive and independent**. They may choose to be a representative at a major brokerage firm, such as Fidelity or Vanguard, or they could follow the franchise model with Edward Jones. Both are examples of being what's called a captive advisor.

**Captive advisors** have a fairly wide range of products available but there are usually limitations, in the form of product-line restrictions. For example, insurance products, such as fixed indexed annuities, may not be approved for advisor use or approved in a limited capacity. So, in that example, the consumer may be limited in options. They frequently have access to certain proprietary products that are only available at their firm. This can create difficulty if the need arises to move to a new firm.

**Captive advisors** tend to have more brand recognition that comes from national advertising campaigns done by the captive company. Their staff and infrastructure are provided for them as well. Fees and commissions are split with the firm and the split will vary from advisor to advisor. As a result, they need to serve more clients and usually have a larger amount of assets under management.

**Independent advisors** are unaffiliated with any of the larger firms and, as a result are able to offer a wider array of solutions.

**The independent advisor** generally must build a client base from scratch, so marketing and prospecting activity is required. Independent advisors can range from the solo practitioner to a large firm. There is no financial support for an independent firm, they must be adept at managing a business. This can sometimes limit a firm's growth. These firms tend to serve less clients than a captive and have less assets under management.

Advisors should explain to their clients why they chose their business model, why they chose to work for one company or why they chose to be independent, and ultimately, why they believe their choice benefits the client.

# Knowledge

The more knowledge your planner / advisor possesses, the better your strategy will be. There are six key topics that they should be knowledgeable on.

### Risk

Managing a client's risk is the primary job of an advisor. Ask what tools and strategies they use to protect your money and income. Have them tell you how these have served clients in the past, especially in 2008 and 2022.

**1**

### Generating Income

Ask about how income will be generated and protected.

**2**

### Stock Market

Do they personally manage the money or outsource it to a tried party. Ask what their methodology is for choosing investments. Whether they prefer individual stocks, mutual funds or ETFs and ask WHY. Have them tell you three of their favorite stock stories. If they outsource it, ask how they evaluate the manager, when the last time they changed managers was and what would cause them to change managers.

**3**

### Insurance

You can tell a lot about your planner's from their relationship with and experience insurance. Get as many stories as you can about the various ways they've used insurance in clients' strategies.

4

### Alternative Investments

How does your advisor use, select and monitor. Ask for real world examples.

5

### Taxes

How are taxes considered when building and managing a strategy.

6

## Service

A strategic plan is just the beginning. Ongoing reviews are a critical factor in all advisor / client relationships. Make sure you know exactly how the strategy is tracked and what the review process looks like and how often you will be meeting with your advisor.

How are plans revised? Is there a charge for this? Ask for some examples of when plans have been adjusted?
Also ask about general service issues and how they are handled.

An unfortunate but real problem in the financial services industry is the returning of client phone calls. Make sure you address how quickly calls are returned. Is there a staff in place for service and, if so, do they have defined roles for customer service. It's also good to know if the staff are licensed.

Ask how death claims are handled as this will provide good insight into the experience and service level of the practice.

# Compensation, Fees & Commissions

The more knowledge your planner / advisor possesses, the better your strategy will be. There are six key topics that they should be knowledgeable on.

Salaried advisors usually work for large financial institutions. These individuals tend to have the least autonomy and are two to three steps removed from the implementation of your strategy.

The structure is typically a base salary with bonusses based on commissions and fees generated. Bonus structures at these companies tend to be changed to incentivize financial products and services that the institution wants to increase revenue from.

These individuals serve more as relationship managers and liaisons between the clients and those implementing the strategy. This structure can lead to limited contact with those making the financial decisions on your behalf and can result in lower accountability regarding your results.

Commissions are the most common way for an advisor to be compensated.

Sometimes they come from a client's funds and sometimes they are paid by the product or service sponsor. **They typically range from 5% to 7%.** Over the years, commissions have been flagged as a large problem in the industry.

The issue is not so much with the compensation structure itself, but with the fact that they are usually paid up front. This leads to the ongoing need to generate more commissions to continue to get paid and what is known in the industry as churning. Churning is the constant selling of financial solutions to a client for the purpose of generating revenue for the advisor.

Some commission-based solutions offer an ongoing trail. This structure offers a smaller commission up-front (usually 2% to 3%) and a continued yearly commission (usually 1%) each year the client remains in the solution.

This greatly reduces churning but moving from an up-front to a trail based business model is difficult. As a result, the more mature and stable practices tend to have a trail model whereas the younger firms have aa up-front model.

Only advisors who hold a series 65 license can receive fees for their service. Fees are typically earned for managing money, planning and advice. These are referred to as advisory fees.

Fee only planners receive a fee for constructing a strategic plan, usually $2000 to $10,000 but they can vary widely. Some provide a plan and disengage, while others also manage the strategy. Ongoing advisory fees are usually calculated based on the assets undermanagement and can typically range from 0.5% to 2.5%.

Transparency is critical in a good advisor / client relationship. Clients should know what they are paying and should not be afraid to ask. High end advisors are well paid. They should be willing to disclose that so they can be held accountable for the value they are providing.

**According to the Bureau of Labor Statistics, there are over**

**263,000**

**financial advisors in the United States.**

**Every one is different, choose wisely.**