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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 than 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, these are as follows:

Insurance

LEVEL 1

Many professional planners and advisors have a license to sell insurance. However, some may ONLY have a license to sell insurance. They are unable to offer other securities products such as stocks, mutual funds, ETFs, bonds, or anything that has to do with the publicly traded markets. These advisors tend to focus on annuities and life insurance as the sole aspect of your strategy.

Series 6

LEVEL 2

Series 6 is a license entitling the holder to buy and sell securities products such as mutual funds, variable annuities, and some insurance products, variable life insurance, for example. 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 who reports only
58% of testers pass the exam.

Series 7

LEVEL 3

Series 7 is an 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.

According to efinancialcareers.com, only
71% of testers pass the exam.[1]

1. https://blog.achievable.me/finra/securities-industry-essentials-sie-exam/finra-series-exams-pass-rates/

Series 65

LEVEL 4

The 65 license qualifies individuals to provide investing and general financial advice and analysis to clients. Passing the Series 65 exam qualifies individuals as Investment Advisor Representatives.

The Series 65 exam is referred to as the NASAA Investment Advisers Law Examination, a North American Securities Administrators Association (NASAA) which is administered by FINRA. The exam consists of 130 scored questions. Candidates have 180 minutes to complete the exam.

As in every profession, there is theory and practice. Resumes and bios may not always be accurate. 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 counselor. He or she carries a lot of responsibility for your future, and it is critical they have the necessary knowledge to help ensure its success.

Affiliation

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

Captive advisors have a fairly wide range of products available but there are usually limitations, such as 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 may have a larger amount of assets under management.

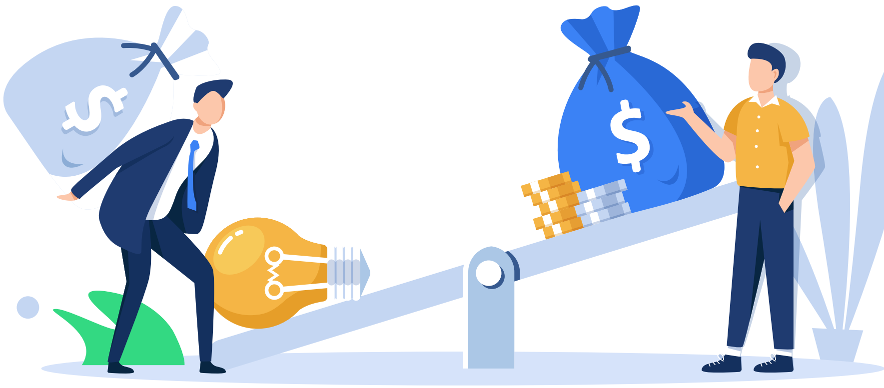
Independent advisors are unaffiliated with the larger and reputably known firms like previous mentioned, and as a result, can offer a wider array of solutions.

The independent advisor generally must build a client base from scratch, so marketing and prospecting activity is typically a necessity. Independent advisors can range from the solo practitioner to a multi-advisor office. There may not corporate financial support for an independent firm, they must be adept at managing a business. This can sometimes limit a firm's growth. Many of these firms typically serve less clients than a captive and may 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 may be. There are at least 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 help 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 potential income will be generated and protected.

2

Stock Market

Do they personally manage the money or outsource it to a third-party. Ask what their methodology is for choosing investments. Whether they prefer individual stocks, mutual funds or ETFs, for example, 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 from their relationship with and experience insurance. Get as many stories as you can about the ways your planner has used insurance with clients, as it will help you evaluate how knowledgeable your planner may be with insurance.

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, 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.

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 because it can enhance service as the staff better understands the strategies and how the investments work.

Ask how death claims are handled as this can be an area of importance and another indication of the existence of processes and procedures within the organization.

Compensation, Fees & Commissions

How advisors are paid is not always clear. There are three ways planners and advisors are paid; salary, commissions, and fees.

Salaried advisors tend to have the least autonomy and can removed from the Portfolio Managers of the fund/strategy. These individuals serve more as relationship managers and liaisons between the clients and those managing the strategy.

This structure can lead to limited contact with those making the financial decisions on your behalf and may 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 may typically range from 5.75% for some "A" mutual funds**, for example or 7% for some variable annuities, for example. Over the years, commissions have been closely watched by FINRA 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.

Some commission-based products 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 product. Building a practice on trail income is difficult as it requires more clients to receive 1% than 7%, for example.

Only advisors who hold a series 65 or 66 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, amounts 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 under management as a percentage.

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.[2]

[2] https://www.bls.gov/oes/current/oes132052.htm

Every one is different, choose wisely.

Disclosures

Because investor situations and objectives vary this information is not intended to indicate that an investment is appropriate for or is being recommended to any individual investor.

This is for informational purposes only, does not constitute individual investment advice, and should not be relied upon as tax or legal advice. Please consult the appropriate professional regarding your individual circumstance.

Asset protection plans should be developed and implemented well before problems arise. Due to the fraudulent transfer laws, asset transfers that occur close in proximity to the filing of a lawsuit or bankruptcy can be interpreted by the court as a fraudulent transfer. Proper structuring of these assets is imperative please seek proper legal and tax advice prior to engaging in re-titling/structuring of any assets. Please note that laws are subject to change and can have an impact on your asset protection strategy.

Mutual Funds and Exchange Traded Funds (ETF's) are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from the Fund Company or your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Product guarantees are based on the claims-paying ability of an insurance company and assume compliance with the product's benefit rules, as applicable.

Indexed annuities are insurance contracts that, depending on the contract, may offer a guaranteed annual interest rate and some participation growth, if any, of a stock market index. Such contracts have substantial variation in terms, costs of guarantees and features and may cap participation or returns in significant ways. Any guarantees offered are backed by the financial strength of the insurance company. Surrender charges apply if not held to the end of the term. Withdrawals are taxed as ordinary income and, if taken prior to 59 ½, a 10% federal tax penalty. Investors are cautioned to carefully review an indexed annuity for its features, costs, risks, and how the variables are calculated.

Investors are advised to consider the investment objectives, risks, and charges and expenses of the variable annuity and its underlying investment options carefully before investing. The applicable prospectuses for the variable annuity and its underlying investment options contain this and other important information. Please call the product sponsor for free prospectuses. Read them carefully before investing or sending money. Products and features are subject to state availability. The investment return and principal value of the variable annuity investment options are not guaranteed.

Variable annuity sub-accounts fluctuate with changes in market conditions. The principal may be worth more or less than the original amount invested when the annuity is surrendered.

Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Investing in alternative assets involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments are often sold by prospectus that discloses all risks, fees, and expenses. They are not tax-efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain and should not be deemed a complete investment program. The value of the investment may fall as well as rise and investors may get back less than they invested.

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