

## Choosing Financial Advisors

### Why Do You Need Financial Advisers?

You work hard to earn your money. You should work just as hard to make your money work for you. But if you spend time investigating all the investment options available to you, you would have little time for anything else! Financial advisers can save you time.

Another reason for using advisers is that they are more likely to know about specialized sources of information. Your local public library may have an investment reference section, but it may not be able to subscribe to the dozens of information services and newsletters that serve the financial industry. In general, financial advisers can provide more information more quickly than you could gather yourself.

### Where Can You Go for Advice?

Who you choose as financial advisers will depend on what type of advice you want. Do you need basic investment advice, specific investment advice, or comprehensive planning services?

There are numerous individuals and firms that offer financial advice. Among these are bankers, lawyers, accountants, insurance agents, stockbrokers, and financial planners. Many people use a combination of advisers for the specific investments in their financial plan.

**Bankers.** Managers and officers at banks, savings and loans, and credit unions can provide information and advice on the different types of accounts their institutions offer. This information can be especially important in light of changing regulations in the financial industry. Bankers can help you select appropriate accounts for your cash and emergency funds. Many banks also have trust departments, which may manage certain funds for you. Bank trust departments tend to be conservative investors with a goal of preservation of capital rather than capital growth. The fee structure of bank trust departments varies and you will want to compare these before making a decision to use a bank trust department.

**Lawyers** may know about the legal and tax implications of your investments, but in general they are not in a position to advise you on which investments to make. A lawyer will be helpful in certain investments (real estate, partnerships), but not as your primary advisor. Because lawyers' fees are relatively high (\$45 to \$150 per hour), you will want to be ready with specific questions to ask regarding your investment.

**Accountants** specializing in tax considerations will be especially knowledgeable about the tax implications of your investments. Accountants usually do not recommend specific investments. Rather, they advise you about whether to invest at all, how much risk you can afford to take, and the tax consequences of any investment. Like lawyers, accountants are not necessarily knowledgeable about all aspects and types of investments. Also, their fees may be relatively high.

**Insurance agents** probably have served as a financial adviser to most families with respect to risk management and life insurance. While insurance is an important tool in family financial management, most agents offer a limited number of products (insurance, annuities) for your investment dollar. Agents are usually trained by the companies that employ them. The insurance industry also offers training which leads to the title Certified Life Underwriter (CLU). Agents are paid on a commission basis.

**Stock brokers.** Beginning investors will probably want to consult a broker at a large national or regional brokerage firm. These firms supply brokers with research on various types of investments and they offer a wide variety of investment options. Larger firms may be more likely to have special small investor programs for the beginning investor. It is generally helpful to select a broker who is a member of the New York Stock Exchange since they will have access to investments on nearly all stock exchanges.

**Discount brokers** buy and sell stocks, bonds, and some other investments. As their name implies, they charge “discount” rates -- their commissions may be 30 to 70% less than other brokers. The main reason is that they offer only limited services. Discount brokers are not as likely to take time to advise you, but they may have written information available. Discount brokers are useful when you already know what investment you want to make, but they are less useful as advisors.

**Financial planners** try to deal with the total financial picture. They offer advice on a variety of financial services including risk management, investments, tax planning, retirement planning, and estate planning. Many planners work with other professionals (lawyers, accountants, insurance professionals) as a financial planning team. The National Endowment for Financial Education in Denver, Colorado trains individuals to be Certified Financial Planners (C.F.P.). Persons taking this two-year course tend to be professionals in the financial services field (brokers, bankers, insurance agents) who will continue to focus on one area (e.g. investments, insurance). You can get a list of CFP's in your area by writing the Institute of Certified Financial Planners, 9725 East Hampden Ave., Denver, CO 80231.

## **Fees**

Be prepared to pay for the advice you receive. Financial advisers can be paid in one of three ways. Some work for a fee, some work on commission, and some combine commissions and fees. Fees may be quoted at an hourly rate (as many lawyers and accountants do), as a percentage of income or a percent of managed assets. Insurance agents and stock brokers do not usually charge a fee for their services, but they receive a commission on the products they sell. Because income may depend on sales, it may be best to deal with an adviser who either sells a multitude of products and investments or one who offers advice only. Financial

advisers who handle only one or two types of investments may be less than objective in recommending investment options.

The National Association of Personal Financial Advisors is an organization that supports financial advisors who charge by hourly fee only. To get a copy of Fee-Only Financial Planners in your area call 1-800-366-2732.

## Where to Find Advisers

There are several different ways to locate financial advisers. Perhaps the easiest is to look in the phone book under appropriate listings -- banks, lawyers (or attorneys), accountants, insurance, stock brokers (mutual funds, investment securities), financial planners, financial consultants. This will give you an idea of the availability and location of advisers and you may find some of their services listed. Since phone listings tell you little about advisers, you may want to get recommendations from friends and other people in a position to use advisers.

Many advisers, especially stock brokers and financial planners, will offer free or low-cost seminars on investing. These educational programs give you a chance to see a bit of how an adviser works and what types of services and investments he/she offers. If you like what you see and hear, you can call for an individual appointment. Sometimes the initial meeting will be free of charge.

## Shopping for Advice

Buying financial advice is much like buying any consumer product -- you will want to get the most for your money, so you will want to choose your advisers carefully. Consider the following points:

- What is the adviser's *questioning technique*? Does he/she ask in-depth questions about your current financial situation, your goals, your preferences for risk?
- If you want specific advice, is the adviser willing to make specific recommendations? For example, will he/she suggest specific stocks or bonds? Some stock brokers will give you information on several stocks (3 to 5) and let you decide which one (or ones) to buy. The decision is still yours, but your choice set has been narrowed from several hundred to a few by a professional who knows your goals and finances.
- Is the adviser *familiar with recent tax laws*? Because laws change so often, good financial advisers need to keep up-to-date. Ask when they last attended an update or training class.
- Does the adviser have *access to market research* on various investments? Larger firms often have research departments who provide advisers with information on different aspects of an investment. If you are interested in a particular stock or bond, for instance, researchers can tell you about the financial health of the corporation, the market for its products, and a forecast of the future for those products.

