LORING WARD
A BETTER WEALTH EXPERIENCE

What to Look for in a Financial Advisor

An excerpt from *The Wealth Solution – Bringing Structure to Your Financial Life* – Third Edition

Any financial advisor you work with must be able to bring significant value. Since your understanding of any advisor's process and how it corresponds to serving you will be essential, we've provided a list of key criteria to think about. We have worked with hundreds of advisors over the years and have identified some of the factors that differentiate successful advisors from the rest of the pack. As you interview potential advisors, ask the following questions:

- **What professional designation(s) does the advisor have?** The single most important designation to look for when evaluating an advisor is whether or not he or she is an independent advisor. Independent advisors are legally required to act as a fiduciary — which means they must always put your interests as a client ahead of their own. In addition they must disclose all important information to you, including fees charged and conflicts of interest. In short, it is illegal for them to engage in any situation that would serve their interests over yours.

  Also, ask if the advisor has an advanced designation such as Certified Financial Planner™ (CFP®). A CFP® designation tells you that the advisor has received formal education and training on a wide variety of financial planning topics and has passed an exam testing their financial planning knowledge and skills. CFPs also are required to take continuing education courses each year to stay current on these issues. If the advisor is not a CFP, inquire about how many years he or she has been in the financial services industry. With non-CFPs, you'd like to see that they have at least five years' experience (and preferably more).

- **What is the advisor's compensation structure?** An advisor's compensation structure can tell you a great deal about what your experience working together may be like. There are three basic types of compensation structures: fee-only, fee-based, and commission-based.

  – Fee-only advisors are entirely compensated by fees paid to them by their clients, usually structured as a percentage of the assets they manage.

  – Fee-based advisors receive the majority of their compensation from client fees, but may also receive commissions on some products (such as life insurance or long-term care policies).

  – Commission-based brokers receive their fees from commissions generated by buying or selling investment products for clients.

  By working with a fee-only or fee-based advisor, it is more likely that your interests are aligned with theirs, as they are paid for advice, not for the sale of a financial product (except in the case of fee-based advisors as discussed above). Additionally, fee-based and fee-only advisors are able to avoid conflicts of interest because of the fee structure; commission-based advisors are only compensated when making trades in a client's account, so they have an inherent incentive to encourage buying and selling.

Advisors who adopt a 360 Wealth Management philosophy fit into either the fee-only or fee-based camps. The advice they provide is based on what is in their client's best interest. For example, if it requires 10 hours or 20 hours a year to help you with your planning needs their compensation is the same. Essentially, you are paying for access to their time and wisdom versus purchasing a product or engaging in a transaction

- **What types of clients does the advisor serve?** Many advisors have a clearly defined type of client they serve. It might be broad-based (retirees, for example) or highly-focused (such as executives in the health care profession). Having a targeted approach offers two advantages. For one, it means they have specific knowledge and expertise in issues common to a certain category of client. Second, it means that if you are not a good fit for that advisor, he should tell you so and recommend another advisor.

- **Is the advisor consultative?** Perhaps the clearest sign of whether an advisor is consultative or not will occur the first time you meet. A consultative advisor will let you do plenty of talking about what you are looking for, and will ask you questions designed to identify what is really important to you as well as what specific issues you are concerned about. The best consultative advisors will have a formal process for uncovering those issues, such as the discovery process that we have highlighted in this book.

  By contrast, a non-consultative advisor will most likely spend much of your first meeting talking rather than listening. But remember: An advisor's job is to do all he or she can to help you reach your most important goals. If you encounter an advisor who takes little interest in those issues from the start — or asks you just a handful of basic, investment-only questions — chances are the advisor is most interested in getting just enough information from you to recommend a specific product. He's probably not too concerned about understanding your personal and financial goals and helping you manage your entire future.

  Another good indication that the advisor is consultative is if she uses a defined process for meeting with clients and helping them on a regular basis. Therefore, when you meet with an advisor, make sure to ask her to spell out her approach for working with clients, and decide if her answers indicate a consultative approach with regular meetings.

- **Does the advisor sell performance?** When an advisor you interview discusses his investment methodology, pay close attention. Does he highlight how much he's beaten the market lately or emphasize his ability to generate huge returns through a "specialized" or "proprietary" approach? If so, be wary. The promise of consistent market-beating returns (or suggestions along those lines) is a red flag. As you'll remember, decades of research show that accurately predicting the winning and losing investments, asset classes and markets year after year is hugely difficult — nearly impossible, really. An advisor who sells performance as the primary reason to work with him is likely to continually buy and sell products in your portfolio.

We've witnessed more of this performance-selling in recent years as the markets have been increasingly volatile. Many advisors today like to talk about the ability to offer "downside protection" and "alternative" techniques that will get clients in and out of the markets at just the right times. We think this is simply market timing disguised as risk management. Using these approaches, you may win — but the greater likelihood is that you will lose. Regardless, it's a huge gamble to take with your future.

If you believe (as we do) that the most prudent investment approach is to try and capture market rates of return, then it clearly makes sense to work with an advisor who is aligned with your thinking and investment philosophy.

- **Does the advisor work with other professionals to solve your biggest concerns?** As we've noted before, the full range of your wealth management concerns are diverse and complex. To effectively understand them in an integrated manner, an advisor needs to bring expertise and skilled resources to the process. In rare cases, an advisor may possess all the skills needed to build and maintain a comprehensive wealth management plan. Typically, however, you'll want to see that your advisor can coordinate the efforts of a team of trusted professionals — which should typically include a CPA, an estate planning attorney and an insurance specialist — to create truly comprehensive solutions.

- **What tools does the advisor use to maintain your wealth management plan?** Think about all the moving parts of a wealth management plan. Clearly, such a plan cannot be created once and put in a drawer. It needs to be monitored, reviewed and updated on a regular basis. That's why you need to know what tools and criteria an advisor uses to maintain clients' plans and keep them current.

  The advisor should be taking advantage of advanced technology such as financial planning software. You will also want to see that the advisor has a systematic, disciplined method for reviewing clients' objectives and risk tolerance, and rebalancing portfolios in order to keep the portfolio at the targeted allocation. Finally, ask if the advisor creates an Investment Policy Statement for each client.

  As mentioned earlier, an IPS should detail all the key components of your investment plan. Because of its ability to help keep investors on track, we believe an IPS is absolutely crucial for every investor.

- **Does the advisor have a clean record?** You can research an advisor's compliance record to see if he's ever been censured or received client complaints by going to the BrokerCheck feature on the Financial Industry Regulatory Authority's website (www.finra.org/Investors/ToolsCalculators/BrokerCheck). This site only covers advisors who work with a broker dealer. For independent advisors, go to the Investment Adviser Public Disclosure website (IAPD) at www.adviserinfo.sec.gov. If an advisor has any prior complaints or enforcement actions on his record, go back and ask the advisor for details about the situation and decide after that if you should consider working with him or her. For some investors with substantial wealth, having a background check run on a potential advisor can ensure that the advisor has not run afoul of financial regulatory agencies in the past, or has not been convicted of certain crimes.