

How to Hire a Financial Adviser

by Josh Patrick, CFP®

*Make sure your adviser puts you first and helps
you discover what is important in your life.*



Introduction

When working towards financial independence, it's crucial that you have a financial adviser that is working in your best interest. This means someone who can integrate your entire financial-planning process, effectively and efficiently, to meet your highest life goals. Before you consider whether you should be investing on your own through a discount broker or using one of many financial advisors, from insurance agents to stockbrokers to financial planners to CPAs to tax attorneys, you should ask yourself first, do you know what you need and second, are you willing to take the time to be a responsible investor.

Below I've put together several questions you should ask yourself before starting on an investment program. The first portion of these questions starts with general goals and the second deal with the specifics of investments. Many investment advisors are competent at suggesting investments, however, unless they also have a strong grounding in what your life goals are, you may get an answer that is both wrong and inappropriate for where you are in life.

Determine your Fiscal Quotient

The first set of questions deal with your long-term goals as it relates to your financial situation. Many advisors will help you develop risk and volatility measurements for how you invest. However, I believe that is the analysis that is done towards the end of the engagement.

The first step is developing a liability analysis. One where you look at your financial needs, compare that against your income and then develop a wealth development statement that fits in with your needs and ability to understand markets.

Do you know your present situation?

Have you done a thorough analysis of your annual financial needs? Do you understand how much money you need annually and have projected that in the future using a reasonable rate of inflation?

Do you have a thorough understanding of current tax laws? Do you follow tax strategies that Congress is thinking about? Do you think about the "social engineering" that Congress insists on using the tax code for?

Do you have a thorough understanding of the difference between capital gains, short-term capital gains, dividend and ordinary income? Do you know how to convert short-term taxable gains to never taxed or long-term capital gains?

Do you understand what the relationship is between risk and how much money you have to save for future comfort?

Do you have the discipline to follow through with your financial plan once you develop one? Do you have a "coach" to help you work through your financial challenges? If you are your own coach, when do you know it's time to change or modify your strategy?

These are the first questions you should ask if you decide to handle your own finances. These are the questions of how to develop a wealth strategy that will have a high probability of success. One that uses modern tax law and wealth building strategies that have a minimum of friction.

Ask yourself the following question: *Do I have the ability and most importantly, the ambition to stay on top of the best practices of those who are great at amassing large sums of assets with little work?* **If the answer is no or you don't have a good idea of how your own plan will work, you are a prime candidate for working with a Financial Planner.**

You must objectively look at your own situation. Many people hire teachers and coaches to help them improve in areas of their life. If you want to start to play golf, you might choose a teacher to help you learn the game. The same is true with your own financial situation. If you want to increase your odds of having a successful financial life, you should work with a professional coach that has the knowledge, tools and education to help you achieve your goals.

Determine your investment abilities

After you've figured out what you want in the way of a liability or risk based plan, then you should move towards your investment quotient test. First have your strategy in place for what you need to accomplish and then work towards making some decisions on how and what to invest your money.

In helping you decide what is the best way for you to invest, please consider the questions below:

Do you know how your mutual funds work? Are you aware of how long the manager has been in place? How has the manager done in down markets as well as up markets? Do you know what the style of investments is in your mutual funds? Does the manager of the fund stay within the style they advertise?

Do you know what tax efficiency is in your investment portfolio? Do you know what the average after-tax return of your mutual fund or investment portfolio provides? Have you done an analysis of the different forms of investments that can provide a variety of after-tax returns?

Do you know the difference between managed money accounts, mutual funds, hedge funds, closed end mutual funds, bonds, strip bonds, mutual bonds, corporate bonds, junk bonds, derivative investments and stocks?

Do you have a method for putting together an asset allocation model that will help you hit your long-term financial goals?

Have you ever lived through a 25% downward correction of the market? If so, what did you do with your investments?

If you have mutual fund investments, how do you go about evaluating which funds are correct for you? Do you purchase funds based on their past performance? Did you know that the top 50% of performing funds will not necessarily be the top performing funds for the next five years? Research shows that of the top 50% of the funds for a five-year period, approximately 50% of the funds will stay in the top 50% and the other half will join the bottom 50% of fund performance.

Do you understand the demographic and technological factors that drive economies around the world? Do you invest your money based on these factors?

What screens do you use when choosing an investment or investment adviser? Do you have a method for easily changing investment advisors or investments when it becomes necessary?

Do you have a wealth accumulation strategy? Have you put together a statement that says where you want to be invested and why?

Here is the biggest question: How have your investments done over the last five or ten years compared to your goals? Are you on track or behind track for hitting your wealth accumulation goals?

Objectively look at how your investments have done over the last five or ten years. Since most professional investors have not done as well as the main indexes over the last five or ten years, it's likely that you have not done well either. If you are investing on a part time basis, the odds are very high that you should get professional help in advising you on where and how to invest your money.

Building a wealth process for you and your family is a complicated affair. First, you must decide what you want to accomplish, then look in hard numbers where you are now, develop a family wealth strategy, choose appropriate strategies and finally monitor your progress on a regular basis. Not many people are able to do all the steps listed above. We might know a fair amount about portions of the wealth building process, but we mostly won't know all of the steps.

When you look for advice for serious health problems, whom do you choose? When developing a wealth accumulation program for you and your family, should you use a discount provider or one that has the training, expertise, and experience of working with people like you achieve their goals.

If you have been beating the appropriate indexes over a long period of years and enjoy the investment process and time involved in making appropriate decisions, then keep self-directing your investments. If your performance has lagged, you don't enjoy the research process or don't know what your goals should be, then find an investment adviser you are comfortable working with. This professional should be competent, understand your situation and be working in your best interest.

Evaluating a Financial Professional

You need one adviser to integrate all your financial affairs. I suggest using a financial planner in this role. Although a competent financial planner will not do taxes, provide legal services or represent you in front of the IRS, they will be in a position to understand your entire financial program, take a long-term view and bring a holistic view to your financial goals.

Many investors have an accountant, life insurance agent, attorney and at least one investment adviser. Although all of these professionals understand parts of your needs, none of them have the whole picture. A properly credentialed and trained financial planner will work to integrate your entire financial life into one that hits your current and long-term financial and personal wealth creation goals. Financial planners by their training and nature will look long-term towards what are the probable outcomes five, ten, twenty and thirty years out.

If you are presently working with a financial planner, you will want to be confident that they can answer the questions you considered in section one. You want to be especially clear that your financial planner spends a vast majority of their time developing a strategy for your financial life. Too many "salespeople" in the financial services business use planning as a come on for selling their products. You want to make sure that your planner spends at least 75% of your engagement talking and planning about you and your families wealth creation strategies.

Only after the wealth creation strategy has been established should your planner talk about specific classes of investments. These classes of investments will be insurance, mutual funds, managed money, bonds, stocks, hedge funds, and variable annuities. Finally, after you have agreed upon a wealth creation strategy, the classes of investments that are important to fulfill this strategy, then and only then should individual investment products be discussed. If your financial planner deviates from this order, you may be working with a "salesperson" and not a planner working in your own best interest.

The investment profession is like all other professions. There are good and bad investment advisors. Plan to pay your adviser for advice. If your adviser says they will do a comprehensive plan with you and only want the opportunity to show you some ideas, they will most likely start looking at products immediately. You might be better off to first work with your adviser on a fee basis where you pay them for your plan. This will give you an opportunity to evaluate whether this planner is providing you with information that you feel is in your best interest.

You will find there are investment professionals that first need to understand their Customers situation and there are those who will want to start with products. Both may be competent in the service they provide, however, it's impossible for you to have an integrated solution presented until your planner understands your entire financial situation.

Where to find an adviser

The best place to find an appropriate adviser is through people just like yourself. If you know people who are in a similar situation as you and they have an adviser they feel good about, have a conversation with that person. When getting a referral from one of your friends, ask them if their adviser has covered the issues in section one of this report. If they have, then set a time to meet with this person and form your own opinion.

All financial advisors should be willing to spend an hour with you for no fees. During this time you should get a feeling for whether this person has added value to the time you spent together. At the end of the first meeting you have had with your potential adviser, they should have learned a little about your situation and made some comments that help you feel they understand your situation. If they have suggested specific investment products during this interview, you might want to pass and continue looking for an adviser that will put you first.

You can also find advisors through radio, television, articles in trade journals, newspapers, websites or professional referral services. With all of these avenues you have the ability to judge their ability without having to go through a sales process. Another great way to judge the ability of a potential adviser is through a seminar. Seminars are a great way to see your potential adviser in action. You might also find an adviser through a direct mail program. Many advisors will send information to people they feel can use their services.

In all the above methods of finding an adviser, make sure the information they provide is generic in nature. If the information they are providing pushes a particular investment idea or product, you are most likely working with a sales person and not an adviser. The most valuable information that can be provided are strategies that help you achieve a long-term goal.

Many people turn to their accountant, CPA or tax adviser for suggestions on who to use for financial advice. All of these professionals will work with the good advisors and be able to help you find someone that can work well with you. However, it's good to be warned that CPA's and now, more and more attorneys, have sections in their practice that provide these services. If the suggestion to stay in house happens, then use the same analysis you would use with a suggestion from a friend about people they work with.

You now have found a potential adviser to work with. You will want to ask some or all of the following questions:

What sort of experience do you have in working with Clients like me?

What results have you had with people like me?

Are you willing to give me some reference lists so I can talk to these people myself?

What sort of specialized training or experience have you had in working with Clients like me. If you own a closely held business, you will want to work with a planner that understands the special problems and opportunities small business owners have. If you are an executive of a publicly held corporation, you will have different problems and will want to work with a planner who specializes in this field.

Are you product neutral in the suggestions you make?

What is the process you go through before making a product suggestion? Independent planners will have a screening process of investment products they use. It's important for you to understand their screening process.

Do you work on a fee only basis or are there commissions and management fees involved? Understand how your adviser gets paid. Ask them for a specific fee schedule on the products they use.

What sort of service do I get for working with you besides the placement of financial products? The true value of working with a financial planner is the non-investment and strategy advice they provide. You want to understand how they work with their Clients on a holistic basis.

Are there break points for placing more assets with you? Most planners will provide discounts as the amount of money placed under management increases.

What is your experience in the business?

How long have you been in practice and how many Clients have you worked with like me?

What are your educational credentials? The CFP designation is becoming the standard for how planners are judged. However, CPA's have their own planning designation as well as life insurance agents with the CLU, ChFC. If you are looking for a planner, the minimum is having one of these designations as a minimal education requirement.

How much and what sort of continuing education do you provide for yourself every year? The financial planning business changes very rapidly. Tax law, investment theory and investment options continue to change. You want your planner to stay current with the best and most advantageous strategies for you and your situation.

What sort of associations and reading do you do? You want your planner to be involved in professional organizations that move their general knowledge forward as well as associations that deal with your particular situation. If you are a small business owner, you will want your planner to be involved in not only financial industry associations, but also associations that support small business.

How do I know I will get the type of service I need from you?

Will I be a priority account for you? Find out what size account is an A account for your adviser. If possible, you want to either fall into this group or have the potential to fall into this group.

If you are not available to answer questions immediately, how will I get these questions answered? What is your standard time for response for questions I might have?

What sort of communication can I expect from your office? You will want to have at least quarterly communications coming from your office. I also think it's important to have the ability to communicate with Clients through E-Mail, web sites as well as traditional methods of face-to-face meetings and telephone conversations.

What sort of account statements do I get and how often will they come? Many financial planning firms are working towards an integrated statement, but they aren't there yet. You will want to know how your planner is going to keep track of the different classes of investments you have and how they integrate into the greater plan you've developed.

How often will my total financial plan be updated? Since you are looking for a planner to provide integrated planning for you, will want to have an annual update that keeps your financial plan current. This also gives you an opportunity to monitor your progress towards your long-term goals.

How do you decide to make investment changes if our performance is not up to our expectations? Make sure your investment professional has the ability to change investments as it becomes appropriate to do so. The investments you choose today, will most likely have to be changed at some point in the future. Understand what the process is that will cause this change to be made.

How are you going to know what to do in the future?

The investment landscape changes. You need to understand how your financial adviser will make the suggestion for the time to change. Does your investment adviser look at macro issues or micro issues in investments?

What experts do you depend on for future direction of the markets? Understand the thinking of your adviser and know that he or she reads and thinks about future changes in the market.

What is your investment philosophy towards gains and taxes? The name of the game is keeping what you make on an after-tax basis. Does your adviser keep up with tax law changes and how it affects your investment portfolio?

Do you use a bottom up approach?

Many advisors start their work with Clients by talking about investments and returns. I believe the proper way is to first establish your goals, develop a strategy to support those goals, agree on an implementation strategy, agree on investment classes and then finally choose the appropriate investments and investment managers. Your adviser should follow this strategy if they are working for you.

Does your adviser ask you for all of your financial records and information? This should include all legal work, spending records as well as present assets and liabilities. If you want your adviser to provide a bottom up approach, they need to know where you stand today?

Does the adviser spend a significant amount of time talking with you about where you want to be? This is your plan and financial life. You want your adviser to understand your goals clearly before making any recommendations.

When major changes happen in my life, how fast do you want to update my plan? When major changes are made, you want your planner to actually run some scenarios before these changes happen. Prior planning can help you avoid some major challenges in your financial life.

What sort of technology do you use in helping you prepare my financial plan? If your planner has sophisticated planning tools, they will be able to update your plan easily and quickly. You will more likely get better service from your planner if they have a good grasp and budget for the use of technology.

You don't have to ask all of these questions, but you might want to at least think about how the above questions help in your financial planning. Most importantly, *you want your planner to be working in your best interest*. The above questions will help you decide whether the planner is doing that.

You also should not expect your potential planner to get a perfect score on this test. However, you do want to make sure they have the competence and training to provide you service that will give you long-term value. Also, there are many excellent financial professionals who make the majority of their income from commissions and asset based fees. Because these planners are getting paid by product suppliers is not necessarily a bad thing. You want to make sure that in all cases your chosen planner is working in your best interest.

You will want your financial professional to settle on a few vendors they can depend on to provide their Clients with first class service. With over 9,000 mutual funds, 20,000 money managers and 2,000 insurance companies, your planner can't know about all of them. However, having a stable of ten to thirty suppliers that can provide quality services to their Clients will help most investors achieve their long-term goals.

Remember, doing everything yourself to save fees is not necessarily the way to financial freedom. If you dislike the planning process, don't understand how tax laws and investments work together or don't have a long-term plan in place, you might want to consider a professional to get you started. If you find the professional can

provide you with long-term advice and investments that work in your best interest, you can work with this person in a partnership to provide long-term value to you and your family. Just as you wouldn't use your own knowledge for complicated medical procedures, we don't want you to use your own knowledge for complicated financial procedures. Establish your need for service and then look for the best professional to provide you that service.

Options for investing

You now have your financial plan in place and you know what asset classes you will be placing your investments. The next question is what are my options for choosing those investments.

Do it yourself investing

Here you play the field. You use your own discipline to choose good companies and investments to make. You also decide when it is time to change asset classes and which asset classes would be good for you to move towards. Many people in this class will try to time the markets. *For 99% of you timing the market will not work.* History shows that market timers will do less well than those who invest on a systematic basis. No one knows what will happen to the market on a short-term basis. Deciding on a short-term basis when to be in the market or not in the market will often have negative results.

You can use discount brokers and no-load mutual funds to limit the costs of trading. However, these savings can be wiped out quickly if you decide to sell in a correction and then the investment turns around two weeks later. Many individual investors do poorly because they sell at low points in the market and then buy back in when markets are close to the top. Having a long-term view with equity investments will provide superior returns for the vast majority of investors than those who try to time the market.

Guided on line investing

More and more on line services from individual mutual fund companies to the large stock houses are providing the opportunity for on line planning and investing. Again, for this to be successful, you first must understand the basics of investing and tax law as well as have a clear understanding of what your long-term wealth accumulation goals are.

If you have been able to do your own planning and investment counseling, the major investment companies have excellent tools on the World Wide Web to do this. What they don't provide is the personal touch of an expert who understands people like you and the needs and wants you may experience along your life.

The key issue once again comes down to discipline and time. If you are willing to spend the time staying current and have the discipline to monitor and update your plan on a regular basis, then you are a prime candidate for using an on-line investing service. These organizations provide you with great basic tools for planning. However, I would suggest that after you have your basic plan, pay for an hour or two of a qualified professional to review your plan.

Use a personal adviser

The final way to invest is through the use of a personal adviser. As we stated above, you want your personal adviser to work with you in your best interest. You also want them to understand how technology can keep you informed and provide you with a plan that provides integrated services.

As your assets rise, the cost of mistake is higher. In addition, most people with high assets value their free time more and more. Quality personal advisors can provide you with a host of services that not only free your time, but help you limit investment mistakes that can be very costly.

The financial landscape is one that is technical and complicated. Financial professionals who study and keep current with their profession provide a great deal of added value to their Clients. The trick is finding one who understands you and has worked with people like you. This is where you can invest a fair amount of time.

More and more professional advisors are specializing in working with Clients who have needs they understand. Doctors have different needs from accountants. Small business owners have different needs than executives of large corporations. Many financial advisors now recognize that for them to provide outstanding service to their Clients they need to choose a small niche and stay close to that market place. I suggest finding a planner who knows your niche and has many Clients in that area.

Before choosing an adviser make sure you evaluate your life needs first. Know what you want your planner to provide. Make sure you stay in control of any professional engagement. Know what you want and make sure your planner provides that service for you.

Summary, life-style first

The secret to a happy life is doing what you want and spending time with those who are important in your life. Analyzing markets, evaluating strategies, choosing investment classes and individual investments is very time consuming. If you have the discipline to stick with a simple plan that works for you and your family, then self-directed investing will make sense for you. However, for most of us using a competent financial planner can make a huge difference in our ultimate net worth and happiness.

I recommend that you first take the time to develop a family wealth creation plan. I also suggest this plan is based on a liability platform that supports and promotes the life style you have or would like to have. As you develop this plan, make sure you are factoring the effect of taxes and changes in tax law as you go down the road towards personal financial freedom.

The next decade will provide great opportunity to those who plan and invest for their future. However, I do believe that the help of a financial professional who understands your situation is crucial to your long-term health. The use of a competent financial professional to help you sort through the myriad choices available today can be both cost effective and help you sleep easier at night.

Before making your final choice, look at the options available to you. Have a conversation with the important people in your life about what your life goals are. From there you will be in a position to know which direction will help you achieve those goals. Most likely you have received this article from a financial professional who is genuinely interested in helping their Clients achieve their financial goals. I would strongly suggest that you have a conversation with them about your life-style goals, investment options, tax and estate planning needs with them.



For more information contact Josh Patrick
at 802-846-1264 or email to: jpatrick@patrickgroup.com

The
PatrickGroup

20 Kimball Avenue - Suite 201 - South Burlington, VT 05403